

FINANCIAL TIMES

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World Business Newspaper

MONDAY NOVEMBER 6 1995

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Andreotti charged in connection with journalist's murder

Giulio Andreotti, seven times elected prime minister of Italy, was sent for trial charged with involvement in the 1979 murder of a Rome journalist. It was the first time in recent European history that a former prime minister had been directly linked to a murder charge. The decision by investigating magistrates followed two years of investigations into the murder of Mino Pecorelli, editor of a scandal sheet. Two men have already been accused of carrying out the murder. Andreotti is already standing trial in Sicily, accused of being a political fixer for the Sicilian mafia. Page 18; Echoes persist from 'years of lead', Page 8

McDonnell Douglas wins \$18bn contract: An \$18bn Pentagon order for 80 military transport aircraft has given McDonnell Douglas its second important boost in two weeks. It has also raised President Bill Clinton's standing in the state he must win if he is to be re-elected next year. Page 18; Orders clear the air for McDonnell Douglas, Page 6

Daiwa considers merger: Daiwa Bank, expelled last week from the US by financial regulators, is considering a merger which could create the largest bank in the world. Japan's Sumitomo Bank is understood to be the likeliest candidate. Page 19; Editorial Comment, Page 17

Battle for Kremlin intensifies: The power struggle at the Kremlin intensified when a row erupted between presidential aides and Russian prime minister Victor Chernomyrdin. Page 4

Talks aim for Slavonia settlements: International envoys met local leaders from eastern Slavonia, the last Serb-held region of Croatia, to seek an agreement on the region's future which would remove a key obstacle to the achievement of overall settlement in former Yugoslavia. Page 4

Okinawa row hits US security links: The US-Japan security alliance hit a setback over the weekend when the governor of Okinawa refused a central government request to extend leases for US bases on the southern Japanese island. Page 5

Kashmir leaders dismiss poll initiative: Leaders of an umbrella organisation of political and militant groups in Kashmir have rejected Indian government plans to hold state assembly elections in the disputed region. Page 18; India enters traditional pre-election doldrums, Page 22

China rejects Hong Kong rights call: China has rejected a call from the United Nations Human Rights Commission for Beijing to file human rights reports about Hong Kong after the colony passes to Chinese sovereignty in 1997. Page 5

Polish poll set for second round: The presidential election in Poland looked certain to go to a second round in two weeks with none of the 13 candidates able to win 50 per cent of the poll. President Lech Walesa is fighting for a second term against a strong challenge from Aleksander Kwasniewski, a youthful former communist. Page 4

Argentina cuts public pay: Argentina is likely to announce pay cuts for about 1m state employees today as it tries to bolster its public finances. Page 6

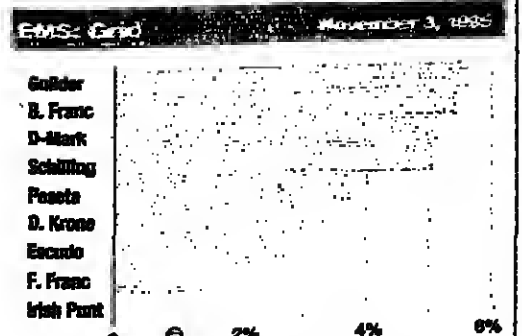
Spain to sell 25% Argentina stake: The Spanish government said it would halve its 50 per cent stake in Argentina, the third-biggest domestic bank in terms of assets. The disposal, likely to take place in the first quarter of next year, would raise Ptas155.7bn (\$1.1bn) at current market prices. Page 19

Australian buy for Texas utilities: Texas Utilities of the US is to buy Eastern Energy, one of the five electricity distributors being sold off by the state government of Victoria, for A\$2.1bn (US\$1.5bn). A capital payment of A\$2.08bn will be followed by franchise fees of A\$47m over the next three years. Page 20

Sun Alliance to acquire French insurer: UK-based composite insurer Sun Alliance is to expand its continental European telephone-based operations by acquiring a French direct motor insurer owned by holding group Suez. Page 20

Kodak steps up assault on Fujifilm Eastman: Kodak of the US stepped up its campaign for US trade action against anti-competitive measures allegedly used by Fujifilm of Japan to dominate its domestic market for photographic film. Page 6

European Monetary System: The spread between the strongest and weakest currencies in the EMS grid narrowed by more than one percent, age point last week. The French franc rallied, despite a cut by the Bank of France in one of its key interest rates. There was no change to the order of the currencies. Currencies, Page 27; Debt talks to dominate markets, Page 23



Currency	Rate
Aus\$	1.6350
Bel\$	36.3636
D-Mark	1.9364
£	1.4937
FF	166.6667
Irish Punt	7.8756
Italy	1.9364
Japanese Yen	161.0000
US\$	0.7364

Peres to pursue peace process

Opposition rallies behind acting PM after Rabin murder

By Julian O'Connor in Jerusalem

Mr Shimon Peres, acting prime minister of Israel, vowed yesterday to continue the peace process with the Arabs begun by Yitzhak Rabin, the 73-year-old leader assassinated on Saturday.

The opposition Likud party said it would support the formation of a new government by Mr Peres, who was foreign minister in Mr Rabin's government.

Mr Peres sought to bolster the standing of his transitional government by promoting Mr Ehud Barak, former army chief of staff, from interior minister to the defence portfolio which Mr Rabin had also held.

Mr Yigal Amir, the 27-year-old rightwing Jewish fanatic who shot Mr Rabin at a peace rally in Tel Aviv and said he had "acted on God's order", is to appear before a court in the city this morning.

The US and other western states pledged continued support for the peace process which they said would be their testimony to the murdered Nobel Peace Prize winner. World leaders gathered to attend today's funeral on a Jerusalem hilltop of a man they hailed as a "world statesman" and "martyr for peace".

In Israel, left and right united in grief for the architect of a Middle East peace which was

RABIN ASSASSINATION:

Pages 2 and 3

- Peres steels to continue the legacy of Rabin
- Gaza stands by peace process
- Act spotlights growing culture of extremism
- A cut to the heart of US foreign policy
- Warrior who became a martyr for peace

Editorial Comment, Page 17



Acting prime minister Shimon Peres sits beside the empty chair of Yitzhak Rabin at a cabinet meeting yesterday. Photograph: Associated Press

acclaimed overseas while causing bitter division at home. The government declared a two-day official mourning period, and politicians from both sides paid warm tributes to the political veteran whose coffin, draped in the Star of David flag, was brought by generals from Tel Aviv to lie in state before the Knesset (parliament) in Jerusalem.

Only a handful of rightwing extremists refused to share the national grief and expressed satisfaction that Mr Rabin was dead. Observers said that the assassination would have little short-term impact on the Israeli-Palestinian peace process. But

the dovish Mr Peres would eventually face an uphill battle to win the credibility necessary to secure the narrow public backing Mr Rabin had gathered behind his peace policy.

In a tearful tribute to a man who had often been a political rival inside the Labour party, Mr Peres said: "We accompany a great friend, a great leader, a great Jew, a great fighter, a man

who pursued peace and achieved it, a man who brought peace to new heights. What can I say other than the need to be together, to be serious and to be loyal to the path. That is the legacy he left behind."

Reaction in the Arab world was mixed. Most governments expressed regret at the assassination and concern about the future of the Middle East peace process. The greatest distress was expressed by King Hussein of Jordan over the loss of a peace ally he described as a "true friend" and a "champion of peace". But Libya and Iran welcomed the assassination and militant Arab groups gloated over the death of their arch-enemy.

A massive security operation began last night in Israel to protect monarchs, presidents and prime ministers who will attend Mr Rabin's state funeral on Jerusalem's Mount Herzl where the founder of modern Zionism and numerous Israeli leaders and war heroes are interred.

US president Bill Clinton heads the list of world leaders which also includes German chancellor

Continued on Page 18

Death opens 'deep wound in the nation's spirit'

By Mark Dennis in Jerusalem

The morning after the assassination was quiet. A usually noisy and bustling nation, subdued by grief and outrage, was in near silence. Clutches of Israelis gathered under the deep-blue autumnal sky, waiting for the motorcade carrying the body of their prime minister to climb the hills to Jerusalem.

"We're in shock and are scared of the future," said Amos, a clinical psychologist who parked his car on the highway to watch the slow procession pass. "We don't want civil war."

A Jew had killed a Jew. The inter-ethnic warfare so common to their neighbours had hit home. An era was lost forever.

The Yom Kippur war a generation ago had dented their aura of invincibility; the assassination shook them from their fiction of unity.

At the Knesset, the Israeli parliament, 200,000 mourners, sobbing, quickly passed the flag-draped coffin in the first five hours.

A sign on top of the former general's coffin listed Mr Rabin's name and rank, the treatment accorded any fallen Israeli soldier.

Police were expecting up to 1m mourners, 20 per cent of the population, before his funeral today.

"[The killing] is one of those terrible moments that open a deep wound in the spirit of a nation, kill its fragile and delicate fabric, leaving it hurt and confused," wrote a commentator in the daily Maariv newspaper.

Israelis who gathered at the Kings of Israel square in Tel Aviv, where Mr Rabin was shot, lit candles in a vigil that started on Saturday night.

Banners with slogans supporting the peace process were laid in a corner, a sign proclaiming "Yes to Peace - No to

Violence" was still stretched across the terrace where he uttered his last words. As youths passed out memorial candles, crews took down the stage on which Mr Rabin had spoken at Saturday's peace rally.

They had streamed to see him there, had shared with him his happiness as they enjoyed with him the prospect of peace, minutes before his murder.

Yesterday newspapers were bordered in black; the radio played sombre music and versions of the Song of Peace, the last song that he sang at the peace rally.

"He became like a father figure to us. We needed him. Now we feel like we lost our security blanket," said Yoav Broshi, 33, of Tel Aviv.

"I never in a million years could have imagined that something like this could have happened in Israel," said Mr Sam Aloni, a recent immigrant from the US, who was waiting his turn to pass by the coffin.

"It was always a risk but we always thought that maybe it would be an act of terrorism from someone on the outside, not an Israeli, not a Jew on the inside," he said.

"That is something I have still not been able to come to grips with."

Farmers face subsidy cuts in proposed CAP reforms

By Caroline Southey in Brussels

A new round of reforms of the European Union's Common Agricultural Policy, including further cuts in price support for farmers, will be proposed by Mr Franz Fischler, EU agriculture commissioner, by the end of the month.

The changes, coming on top of sweeping reforms in the CAP pushed through by the European Commission in 1992, seem certain to run into fierce hostility from the EU's powerful farm lobbies.

The changes will focus on shifting support further away from farm production towards rural communities. "Mr Fischler's aim is to get away from supporting products to supporting people," an agricultural official said.

The reforms are being put forward in time for the EU summit meeting in Madrid in early December, as part of the commission's plans to prepare the EU for the next round of enlargement, likely to include the new democracies of central and eastern Europe.

There are fears that widespread protests against CAP reform could spill over into opposition to the whole enlargement process if it means sharp cuts in benefits available under the present system.

However, Mr Fischler also believes that changes to the CAP are unavoidable by the turn of

the century when a new world trade round will impose further cuts on subsidised production.

The commissioner's initiative is being tempered by the fact that he will almost certainly face tough opposition from all but two member states - Britain and Sweden - when the proposals for reform come before agriculture ministers. It is not yet clear how

Two of the UK's most influential business organisations today publish a survey showing growing frustration with the tone of British political debate about the European Union.

The largest-ever survey of UK business opinion on Europe, published by the Confederation of British Industry and the British Chambers of Commerce, confirms overwhelming support for EU membership. Details, Page 7

radical his package will be. The overall cost of the future CAP is unlikely to be any less than the present Ecu40bn (\$51.7bn) farm budget, and the reforms are intended to come into effect over an extended period of five to 10 years, agriculture officials say.

Mr Fischler will present the changes as extensions of the far-reaching reforms negotiated under Mr Ray MacSharry in 1992. These broke with traditional CAP policy by shifting farm support away from high guaranteed

prices towards direct income payments to farmers.

The central plank to the new reforms would be to extend this policy shift by reducing further the level of price support.

Tied to this, an alternative policy would be drawn up to provide financial support for rural populations.

Although the policy would lead to some reduction in the Ecu40bn currently spent on price support payments, Mr Fischler is not expected to propose an overall reduction in the farm budget, which accounts for half of the EU's total spending.

Instead the savings would be re-allocated to finance in part a "development strategy" which would extend beyond agriculture and include sectors such as forestry, craft industries, commerce and industry.

Mr Fischler has not spelt out what additional sources of funds might be used in finance any new rural policy.

But he has suggested that member states would need to finance a greater proportion of the costs and that taxpayers, rather than consumers, should carry the financial burden of supporting rural communities.

Mr Fischler is expected to suggest that the reforms should be phased in gradually, starting just before the turn of the century.

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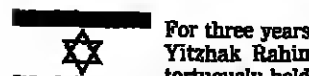
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NEWS: RABIN ASSASSINATION

Peres steeled to continue the legacy of Rabin

By Julian O'Sullivan in Jerusalem



For three years Yitzhak Rabin tortuously held together a fragile coalition inside his Labour party, parliament and the country in favour of making peace with the Arabs. His assassination has thrown the country and the peace process into confusion and raises doubts on the stability of the political house Mr Rabin built.

In a country with a strong religious and cultural prohibition against shedding Jewish blood, deep-seated fears of Jewish civil war, and a long-held belief that political assassinations were things that took place in other nations, the sense of shock and uncertainty has been profound.

In the short-term, Israelis, outraged by the culture of rightwing verbal violence in which the assassination was nurtured, will rally to the Labour-led government and to the image of Mr Rabin as a martyr for peace. But it is by no means certain that in the longer term the dovish Mr Shimon Peres, now acting prime minister, can hold together the sensitive political alliances and public support that Rabin as a highly respected former army chief of staff commanded.

Mr Peres will have to fight hard to win support both from his Labour party colleagues and from the two maverick centre-right ministers who have twice in the past three months prevented the coalition from falling. His much more formidable battle will be to convince the sceptical Israeli public that he is man they can trust in a nervous atmosphere where the political touchstone is security. If he fails, the way will be open for a strengthened

rightwing challenge to peace. If he succeeds, he could emerge with a more solid political consensus for speeding the peace process as a fitting legacy to one of Israel's greatest men.

Mr Peres' short-term prospects are favourable. The near universal condemnation of the recent culture of verbal political violence which saw protesters chanting slogans calling Rabin and Peres "traitor" and "murderer" and carrying effigies of Mr Rabin dressed in a Nazi uniform or Arab head-dress should now marginalise the extreme rightwing politicians, rabbis and Jewish settlers. It will also harm the mainstream rightwing political parties, which often recently appeared dangerously associated with the extremists. And it will rally the nation behind the government.

"The paradox of the assassination is that, by killing Rabin and trying to stop the peace process, the killer might have achieved the opposite," said Mr Danny Ben-Simon, a political columnist with the pro-Labour Davar newspaper. "No politician will now dare play in the same playground of rightwing verbal and political recrimination which Rabin and Peres had to suffer for so long."

Already yesterday it appeared Mr Peres' bid for stability and continuity of policy would receive broad rightwing backing, at least in the short term. Mr Benjamin Netanyahu, leader of the rightwing Likud party, which opposes the peace process, said: "Fraternal infighting and civil war is something which is more dangerous to us than any external threat." His party would not oppose the formation of a new Labour-led coalition, he said. And the Yeshiva council, which broadly represents the 130,000

Many deaths on path to peace

1948: British mandate in Palestine ends, Jews proclaim state of Israel, Arab armies invade. Palestinian refugee problem is born.

1967: Israel captures Golan Heights, Sinai Peninsula, Gaza, West Bank and East Jerusalem from Syria, Egypt and Jordan.

1973: Egypt and Syria attack Israel. Clash engenders Israel's military superiority.

1977: Egyptian President Anwar Sadat visits Israel to seek peace.

1979: Egypt and Israel sign peace treaty under which Israel returns Sinai but plan for Palestinian autonomy is never implemented.

1985: Sadat assassinated by Islamic fundamentalists.

1987: Palestinian uprising erupts in Gaza refugee camp and spreads to West Bank. Over the years some 2,000 Palestinians and hundreds of Israelis are killed.

1991: Middle East peace conference opens in Madrid between Israel, Palestinians, Jordan, Lebanon and Syria.

1993: Sept 13: Israel and PLO sign "Declaration of Principles" outlining plan for Palestinian self-rule in occupied territories. Arafat and Rabin shake hands at White House.

1994: Feb 25: Jewish settler kills 29 Arab worshippers in a mosque in Hebron in the West Bank.

May 4: PLO and Israel sign accord in Cairo, giving Palestinians self-rule in the West Bank enclave of Jericho and the Gaza Strip but allowing Israeli-guarded Jewish settlements to stay.

Nov 2: Israel hands police station in West Bank town of Jericho over to PLO as part of gradual pullout.

Nov 4: PLO signs agreement extending Palestinian rule to most of West Bank.

Sept 25: Israel and the PLO sign agreement extending Palestinian rule to most of West Bank.

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Even if he can hold together a coalition until elections next November, he may face a challenge for the party leadership by younger men such as Mr Haim Ramon, former health minister and reformer of the trade union movement, who more accurately reflect the political centre.

Inside the Labour party Mr Peres will also face a real challenge in winning over the hard-line party rebels led by Mr Avigdor Kahalani, a former general, opposed to further territorial compromise with the Arabs. Twice recently Mr Kahalani and another Labour MP voted against the government, making the coalition's narrow 61:59 vote survival dependent on Arabs and support of two maverick right-wingers who joined the government as ministers but who have deep reservations about the peace process.

Israel's generals, who have often in the past two years proved themselves to have a powerful restraining influence on the pace and depth of the peace process, will also be less trusting of Mr Peres. However, Mr Peres' promotion of Mr Ehud Barak, a former chief of staff and supporter of the peace process, from interior to defence minister yesterday will go some way to calming the army's worst fears.

Many of these problems Mr Peres will have to face will be delayed until the enormous explosion of grief and outrage over Mr Rabin's assassination has died down. And in the short term they are unlikely to have an impact on the peace process, which is locked into an agreed framework and timetable which would be extremely difficult for Israel to break. The latest agreement, signed in Washington in Sep-

tember, calls for redeployment of Israeli troops from Palestinian population centres in the West bank ahead of Palestinian elections to be held on January 22.

For his part Mr Peres has been quick to portray himself as merely following in the footsteps of Mr Rabin. "What can I say other than the need to be together, to be serious and to be loyal to the path (of peace). That is the thing he left behind," he said yesterday.

But complex talks lie ahead next year on the most thorny issues of Arab-Israeli peace, including the future status of Jerusalem, the right of return of Palestinian refugees and whether Palestinians will be allowed to have an independent state. There is, as yet, no Israeli majority for concessions on any of these issues, nor for an Israeli withdrawal from the occupied Golan Heights as the price to be paid for peace with Syria and Lebanon.

Building nationwide support for further peace with Arabs will be Mr Peres' greatest challenge in the long term. For the moment he can count on the widespread desire for national unity expressed across the political spectrum.

His ability to turn that sense of national shock into a driving force behind peace will determine the extent of how far he can push ahead with the peace process.

Mr Peres has often said that if he had to choose between winning the elections or winning the peace he would choose the latter over the former. But he knows that the future of the peace has been instrumental in building depends on winning public support and a Labour victory in next November's elections.

Israel after Rabin, Leader Page

party machine. Although he has held virtually every political office in the past 50 years Mr Peres was never a military man. His more dovish views about peace with Arabs and building a new Middle East have won him warmer public relations with Mr Yasser Arafat, the Palestinian leader, have often seemed to be way ahead of what Israelis were prepared to accept.

It will be much more difficult for the 72-year-old Mr Peres to capture the 20 per cent or so of volatile voters who float between the right and the left, the very constituency which brought Mr Rabin to power in 1992. Without the political centre Mr Peres will find it hard to pursue more difficult decisions inherent in the peace process.

Winning that standing will not be easy. In 1992 Labour chose Mr Rabin over the more internally popular Mr Peres as its leader precisely because they believed only someone with Mr Rabin's distinguished military past could secure victory on a pro-peace platform in a country previously divided on whether it should take the risks of making peace.

But despite his stature Mr Rabin still found it difficult to win broad backing for peace in the nation. Recent opinion polls showed he was neck-and-neck with Mr Netanyahu with 48 per cent of the vote each.

Mr Peres, by contrast, has always been seen in Israel as an arch political insider and product of the old Labour

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months - receiving tacit support from the more mainstream rightwing political parties and active support from a handful of rabbis and activists with a long history of religious extremism.

Mr Amir claims to have acted alone, although he was apparently affiliated with Ryal, the "Fighting Jewish Organisation," a fringe group based on the campus of Tel Aviv's Bar-Ilan University.

A number of groups such as Ryal continue the violent legacy left behind by Kach, an militantly anti-Arab organisation that attained a seat in Israel's parliament in 1984.

Kach's leader Rabbi Meir Kahane occupied that seat until his party was barred, on the grounds that it was racist, from the next Knesset election in 1988. Mr Kahane himself was gunned down in New York in 1990, and his organisation splintered.

But the American-born Kahane, who regularly referred to Arabs as "dogs" and called for expulsion of all Arabs from Israel and the occupied territories, has left his mark on Israel.

Followers of the racist rabbi returned to the public eye after Baruch Goldstein, a Kahane supporter, coldly opened fire on Palestinians worshipping in a mosque in the West Bank town of Hebron in February 1994, massacring 29 of them.

The shooting was denounced by most Israeli political leaders and many rabbis, but some rabbis justified the massacre, keeping the flame of Israeli Jewish racism alive. Kahane splinter groups were banned and forced underground following the incident.

Mainstream Israeli settler groups ambivalently distanced themselves from the massacre, but they firmly oppose the peace process. New movements have appeared, notably Zv Artzenn ("this is our land") which quickly grabbed headlines by staging a series of demonstrations with eye-catching media gimmicks.

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But the assassination of Mr Rabin could trigger a backlash against Israel's right wing: it could marginalise the extremists, and drive a wedge between them and the mainstream right.

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In the wake of the assassination and the outpouring of Jewish revulsion that followed, mainstream settlers and rightwing parties are likely to realise the need to rethink their relationship with the fringes or be relegated to the fringes themselves.

While they have always been a minority, they have grown in stature and presence in recent

months - receiving tacit support from the more mainstream rightwing political parties and active support from a handful of rabbis and activists with a long history of religious extremism.

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A number of groups such as Ryal continue the violent legacy left behind by Kach, an militantly anti-Arab organisation that attained a seat in Israel's parliament in 1984.

Kach's leader Rabbi Meir Kahane occupied that seat until his party was barred, on the grounds that it was racist, from the next Knesset election in 1988. Mr Kahane himself was gunned down in New York in 1990, and his organisation splintered.

But the American-born Kahane, who regularly referred to Arabs as "dogs" and called for expulsion of all Arabs from Israel and the occupied territories, has left his mark on Israel.

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Hard-line groups have provided a

Warrior who became a martyr for peace

It was a mark of how far Yitzhak Rabin had come in his long military and political career that one of the bullets that killed him on Saturday showered blood over the score of *A Song of Peace* in his breast pocket.

He had sung the song just minutes before he died at a peace rally in Tel Aviv.

Mr Rabin, the former war hero and army chief of staff who served twice as prime minister, was a central figure in the history of the state of Israel. He played an active part in its creation in 1948 as 26-year-old commander of the Jewish brigade defending Jerusalem, and fought in most of Israel's subsequent wars with its Arab neighbours, ending as army commander and chief strategist in the 1967 Six Day War.

At the height of the Cold War he did more than any other Israeli to forge close links with the US and he played a critical role in the 1970s and 1980s in Israel's battle against Arab guerrillas and terrorists abroad and at home. Yet at the end of his life he was firmly, if always cautiously, committed to securing peace with his former foes - a role which won him the Nobel peace prize in 1994. He is survived by his wife Leah, a son and a daughter.

"I believe there is now a chance for peace, a great chance, and we must take advantage of it for those standing here, and for those that are not here," he told up to 100,000 supporters at the peace rally minutes before his death.

"I have always believed that the majority of people want peace and are ready to take a chance for peace."

Mr Rabin was the first Israeli leader to take that chance with the Palestinians, and that is unquestionably his main political legacy. But it was not easy for him.

The decisive moment came on the White House lawn in Washington in September 1993 when he hesitantly shook the hand of Mr Yasser Arafat, his arch-enemy for more than a quarter of a century.

The Israeli prime minister later solemnly described how difficult it had been for him, as a soldier and veteran of wars against the Arabs, to shake the hand of a man he said was soaked with the blood of Jews. But that handshake marked the real beginning of the end of the conflict between Israelis and Palestinians, a struggle which had sparked four Arab-Israeli wars and caused the loss of tens of thousands of lives.

The discomfort of the soldier-turned-peace-maker was deeply felt. It also reflected the wider uncertainty in the Israeli nation which Mr Rabin always seemed himself to mirror so closely. "Peace you don't make with friends, but with enemies," he said.

Unquestionably, the peace agreement with Palestinians - what he described as a "calculated risk" - marked a very personal commitment for Mr Rabin.

As chief of staff in 1967, he had led Israel to lightning victory over its Arab foes. But that victory left Israel occupying the West Bank, Gaza Strip, Golan Heights and Sinai desert, ruling almost 2m Palestinians, and surrounded by enemies.

Mr Rabin always felt a responsibility to resolve the problems he helped to create. Although he was quick to stamp on Palestinian discontent, he always felt uneasy governing another people, and he wanted to ensure future generations would not have to suffer the pain of war.

Intellectually he felt Israel could never be the democratic Jewish state he believed in while it continued to rule another people by force and deny them their rights to freedom of expression and development. He also felt that after the Cold War, and with the West pursuing a policy of "dual containment" of Iran and Iraq, Israel had to seize the opportunity to reach peace agreements with enfeebled Arab partners before Islamic fundamentalism and terrorism - what he called "Khomeinism without Khomeini" - sprouted deeper roots.

He never shared the Jewish mystical attachment to the biblical land of Israel, which includes the West Bank and Gaza Strip, and he saw the territories as cards in his negotiating hand. But his vision of peace in no way compromised his absolute commitment to Jewish security, always his overriding preoccupation.

While other Israeli politicians such as Mr Shimon Peres had forged the delicate Israeli-Palestinian peace accords, nobody was better placed than Mr Rabin to take Israel down the uncertain path of peace.

Although he had none of the charisma or flamboyance of other Israeli leaders, he was widely seen as a hard-headed pragmatist and military man

who could be trusted with the security of the Jewish nation. But he also proved the focus for anger among rightwing fanatics who labelled him a traitor, and who finally took his life.

As early as 1976, in his first term as prime minister, Mr Rabin went to Casablanca disguised in a wig and dark glasses for secret talks with King Hassan. Seventeen years later, on his way home from the White House signing ceremony, Mr Rabin flew openly to Casablanca to tell the Moroccan King the search for a peace formula had finally begun in earnest.

Without the election of the Labour party in 1993 the quest for Middle East peace might have been pursued with much less vigour and success. Mr Rabin's return to the premiership was a turning point after years of rightwing Likud and national unity governments. His victory committed the government to seeking a just and comprehensive peace and freezing Israeli settlements in occupied Arab lands, paving the way for an improvement in relations with the US - a move critical to achieving peace.

Since then, the process has been slow and tortuous, mirroring Mr Rabin's equivocal attitude. And he was far from winning universal praise. Palestinian and Israeli critics accused the prime minister of adopting a grudging approach to the Palestinians, and shying away from difficult questions such as the evacuation of Jewish settlers from Arab land. But he always felt he could not go faster than Israeli public opinion was prepared to accept.

His life mirrored Israel's history and he was deeply involved at some level in all of Israel's national events from the 1948 war of independence.

He was born in 1922 in Jerusalem to Russian Zionist socialist parents who had immigrated to British-mandated Palestine. As a shy and quiet teenager he wanted to become a farmer - to pursue the Zionist goals of building the land of Israel. But in 1941 he was drafted into the Palmach, a crack force of disciplined commandos which later became part of the guerrilla war against the British. He was detained and imprisoned for six months - an experience which helped cement his dislike for Britain.

In the 1948 Israeli war of independence Mr Rabin fought with the Palmach on the Jerusalem and Egyptian fronts and later took part in the 1949 Rhodes peace talks. He spent the next 14 years working his way up in the senior command of the Israel Defence Force until his appointment as chief of staff in 1963.

Although he suffered a short psychological breakdown on the eve of the 1967 Six Day War, he was widely credited with Israel's extraordinary victory against Syria, Jordan and Egypt, despite overwhelming odds. Israelis gave Mr Rabin much of the credit for the victory, which included the capture of the old city of Jerusalem. For the first time in almost 2,000 years, Jews could pray at the western wall of the Second Temple. Although Mr Moshe Dayan was feted internationally, Israelis named Mr Rabin Man of the Year for 1967 with 42 per cent over Mr Dayan's 24 per cent.

Mr Robert Slater, his biographer, says his involvement in the Six Day War established his credentials for national office and "became (his) calling card for political leadership". After he left the army he became ambassador to the US, despite his loathing of diplomacy and his inept English. He rubbed shoulders with Mr Richard Nixon and Dr Henry Kissinger and developed a lifelong respect for America and a knowledge of how to lobby for Israel on Capitol Hill.

In Washington he played a critical part in convincing the US to deliver massive arms shipments to Israel. He was described by Newsweek in December 1972 as "one of the two most effective envoys in Washington," although another newspaper said no other diplomat had been attacked "so often for displaying such a noticeable lack of diplomacy."

Mr Rabin was in the middle of his bid for parliamentary election when the 1973 Yom Kippur war broke out and he played little role in what became a humiliating event for Israel. Public anger with the complacency of Mrs Golda Meir's Labour Party grew after the December elections which sent Mr Rabin to parliament. He replaced Mrs Meir as premier, becoming the first native-born premier.

His period in office from 1974 to 1977 was marked by peace efforts following the 1973 Arab-Israeli war, by the daring raid on Entebbe in Uganda to rescue Israeli passengers aboard

Yitzhak Rabin: soldier to peacemaker



1 Rabin the soldier in the 1948 war that created the state of Israel
2 A hero's welcome for Rabin in Jerusalem, at the end of the Six Day War, 1967
3 On Mount Scopus, Jerusalem, after the Six Day War

4 Disguised in wig and glasses in a passport picture used during a secret visit to Morocco, 1976
5 Rabin and Yasser Arafat make peace between Israel and the PLO on the White House lawn, 1993



an Air France flight, hijacked by Palestinian guerrillas; the oil crisis; Mr Kissinger's Middle East shuttle diplomacy and the eruption of the Lebanese civil war.

In 1977, Mr Rabin took set for re-election but was forced to resign on the eve of elections after it emerged he and his

wife had maintained two small bank accounts in the US, then illegal under Israeli law. His resignation cleared the way for Mr Shimon Peres to stand as Labour candidate for prime minister. He was defeated by the rightwing Likud party under Mr Menachem Begin after 29 years in opposition.

Mr Rabin spent the next few years as a backbencher and was resoundingly defeated for the 1980 Labour party leadership contest by Mr Peres. He returned to a national unity cabinet as defence minister in 1984 under Mr Peres as prime minister. Mr Rabin focused his efforts over the next four years

completing withdrawal of Israeli forces from Lebanon and dealing with the 1987 breakout of the intifada, or Palestinian uprising. He responded with an iron fist policy, vowing to fight with "might, power and beatings". But he also pushed for peace with Palestinians, drafting

plans put forward by hard-line Likud prime minister Yitzhak Shamir. Their coalition crumbled because Mr Shamir was not finally convinced of the need for peace.

Two years later, in February 1992, Mr Rabin narrowly defeated Mr Peres for the Labour party leadership and in

June Labour was re-elected to power on a peace platform. Mr Rabin nevertheless promised to take a tough line in talks on surrender of land and on security. More than anything else political observers noted it was a victory for pragmatism over zealotry and ideology.

Mr Rabin was an avowed secularist who was often angry about being trapped in a coalition with parties he felt pursued too narrow an agenda. He was introverted and frequently slow - but careful - in his decisions and his analysis. He was never at home in diplomatic functions, had an aversion to a suit and tie, and preferred the company of military men to politicians and bureaucrats.

But the peace process seemed gradually to be softening his crusty exterior. Hours after his assassination Mr Peres paid an emotional and eloquent tribute to his life-long colleague and occasional political foe. Mr Rabin had been reluctant to sign all of his life, but was finally persuaded to take part in the Song of Peace at the rally. "He didn't make a final testament but the last song he sang was the Song of Peace... The song of peace ringing in our ears will not end."

Julian O'zanne

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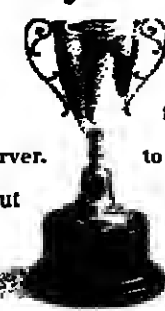
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NEWS: EUROPE

Croatia raises tension in peace struggle

By Laura Silber in Belgrade

International envoys yesterday met local leaders from eastern Slavonia, the last Serb-held region of Croatia, as the struggle continued to resolve the region's status without recourse to military action by Zagreb.

An agreement on eastern Slavonia would remove a key obstacle to the achievement of overall settlement in former Yugoslavia by the presidents of Serbia, Bosnia and Croatia who have been meeting in Dayton, Ohio.

On the other hand, military action by Croatia would derail the US-spon-

sored peace process, seen as the best chance for ending the 42-month war in Bosnia.

Mr Peter Galbraith, US ambassador to Croatia, and Mr Thorvald Stoltenberg, UN envoy, yesterday returned to the fertile region for talks with rebel Serb leaders in the Serb-held town of Erdut.

Mediators are due to shuttle between Croat and Serb leaders who are studying a plan that calls for an interim period of transitional government before the region comes under direct rule by Zagreb.

Hopes for a settlement dimmed on Saturday when Serb leaders failed to

turn up for talks in nearby Osijek, the regional capital, where buildings have been sandbagged and windows boarded up in apparent anticipation of war.

Peace efforts acquired new urgency over the weekend after President Franjo Tudjman of Croatia warned he would not renew the UN mandate in Croatia, which expires at the end of this month. By then, he said, Zagreb must gain control of eastern Slavonia in order to avoid war.

UN officials yesterday feared Croatia would ignore warnings from western governments to refrain from action during the Dayton talks. Mr

Christopher Guinness, UN spokesman, said: "Similar threats to throw out the United Nations in the past have been precursors to military action."

Some 180,000 Serbs fled Croatia in August and the handful who stayed suffered a campaign of violence.

"This coupled with President Tudjman's public assertion that he 'will drink coffee in Vukovar by Christmas' are very worrying signals," said Mr Guinness. Vukovar, the main town in eastern Slavonia, was seized by Serb fighters in November 1991 after a brutal three-month siege.

If Croatia takes military action, it would fly in the face of a pledge to

work towards a peaceful resolution made by Mr Tudjman and President Slobodan Milosevic, his Serbian counterpart, in Dayton last week.

Mr Tudjman on Saturday appointed Mr Zlatko Matesa, the former economy minister, as the new prime minister following parliamentary elections won by his Croatian Democratic Union (HDZ).

Mr Matesa, who has taken part in negotiations with international financial organisations, replaces Mr Nikica Valentic, who has overseen the stabilisation programme which reduced inflation to about 2 per cent from 2,000 per cent in 1993.

EUROPEAN NEWS DIGEST

Lubbers' Nato hopes grow

Supporters of Mr Ruud Lubbers, the former Dutch prime minister, are increasingly confident that he could be named as the next Nato secretary general as early as this week.

The Netherlands government formally named Mr Lubbers as a candidate last week after he appeared to pass muster in a "job interview" with the US government. He has been backed strongly by France and won the approval of the UK, as well as an initially reluctant Germany.

However, Mr Uffe Ellemann-Jensen, the former Danish foreign minister, emerged in buoyant form from a meeting over the weekend with Mr William Perry, the US defence secretary, and signalled that his own candidacy was still alive.

Among the interested parties who would prefer the Danish candidate to succeed are the governments of the Baltic states, who see the Scandinavian countries as their best friends in the west.

The elevation of a strong figure to Nato's top political job will end a damaging period of uncertainty for the alliance. Mr Willy Claes, who resigned as secretary general last month after a year in office, was dogged by the corruption scandal that finally forced him to resign; and for much of last year, Mr Manfred Wörner, the previous holder of the job, was virtually unable to work because of terminal cancer.

The unprecedented decision by the US to summon the candidates for "job interviews" was a reflection of Washington's keenness to get the decision right this time, just as Nato is about to embark on the challenge of implementing peace in Bosnia.

Bruce Clark, London

Russian sell-off controversy

Managers of one of Russia's largest oil companies have managed to retain control of their enterprise, in a development likely to increase the controversy surrounding Russia's second stage of privatisation.

In an auction on Friday afternoon, Surgutneftegaz Pension Fund won a 40 per cent stake in Surgutneftegaz, Russia's second largest oil producer. Surgutneftegaz Pension Fund is a subsidiary of the oil company itself and its victory is likely to fuel concerns that the privatisation this autumn of some of Russia's most valuable enterprises is being controlled by a small group of insiders.

Rosneft, a smaller Russian oil company, tried to participate in the auction, but company officials said every effort was made to bar their bid, including an attempt to close the airport at Surgut, where the auction took place. The auction commission, which was strongly influenced by Surgutneftegaz management, allegedly refused even to consider the hostile Rosneft bid, restricting the competition to two subsidiaries of Surgutneftegaz.

Christina Freeland, Moscow

London police hold Algerian

Police in London have arrested an Algerian on suspicion of involvement in a wave of bombings in France. One of those arrested is Mr Abdelkader Benouif, alias Abou Fares, believed to be a leading member of the Armed Islamic Group (GIA), an extremist Moslem group which accuses France of backing the Algerian military government in a civil war against Moslem fundamentalists.

The GIA has claimed responsibility for bombs which have killed seven people and injured 170 in France since July. The French Journal du Dimanche newspaper said French police were surprised and rather upset by the arrests, as they wanted more time to prepare extradition requests.

Reuters, London

Presidential aides insist Yeltsin is still in control

Battle for control of Kremlin intensifies

By Chrystia Freeland in Moscow

The struggle for control of the Kremlin intensified over the weekend, when a public row erupted between presidential aides and Russian prime minister Victor Chernomyrdin, while a group of leading Russian businessmen launched a campaign for the postponement of December 17 parliamentary elections.

Predictions of a communist and nationalist landslide in the parliamentary poll and the heart attack suffered 10 days ago by Mr Boris Yeltsin, the Russian president, have shaken the Russian establishment's hold on political power, provoking a fierce battle for control of the country.

One front in this conflict is the struggle between the presidential entourage and Mr Chernomyrdin to fill the political vacuum created by Mr Yeltsin's heart attack. Over the weekend, the presidential clique stepped up its attack, insisting that Mr Yeltsin remained fully in control of the country.

These assertions forced Mr Chernomyrdin to back down from his previous claim that the president had formally transferred some of his powers to the prime minister.

"The president has not turned over his powers to any-

Parliamentarians in the former Soviet republic of Belarus have caved in to pressure from President Alexander Lukashenko, in a move which is likely to sabotage parliamentary elections scheduled for November 29. The MPs backed the president's view that the polls should be valid only if 50 per cent of the electorate votes. Because of widespread public apathy, such a high turn-out is unlikely, but invalid elections would strengthen the president and those MPs who already have seats in parliament.

one while he has been ill," Mr Sergei Medvedev, the presidential spokesman said. "Nor was that possibility raised during Friday's conversation between Yeltsin and Chernomyrdin." After the Friday meeting, Mr Chernomyrdin had said he was co-ordinating the work of the key security ministries, a task normally reserved for the president. But after the public rebuke from presidential aides, Mr Chernomyrdin reversed his position, insisting that "Yeltsin has not handed over his powers to anybody".

The personal clash between the presidential entourage and the prime minister could be dwarfed by the broader effort of Russia's new political and

economic elite to prevent communists and nationalists from coming to power.

Over the weekend, a group of leading businessmen, who fear that a communist victory at the polls could lead to a rollback of market reforms, launched a campaign to have the Constitutional Court declare Russia's election law invalid. Such a ruling would force a postponement of December 17 parliamentary elections.

Several prominent Russian politicians, including Mr Mikhail Gorbachev, the former Soviet president, and Mr Genadi Zyuganov, have also said that the Russian establishment is seeking ways to postpone the parliamentary ballot.

However, the weekend also brought good news for Russian democrats, when the Supreme Court ordered the government to register Yabloko, the second most popular political party in the country, which last week had been banned from participating in the elections.

Mr Grigory Yavlinsky, the Yabloko leader, who accused government officials of banning his party in an effort to prevent him from becoming a rival to the presidency, hailed the Supreme Court's ruling as a victory for democracy.

"There is still hope for democracy in Russia," Mr Yavlinsky said.



Lech Walesa with his daughter Brygida (left) attends mass before voting yesterday

Vote split in Polish poll

By Christopher Bobinski in Warsaw

The presidential election in Poland, where President Lech Walesa is fighting for a second five-year term against a strong challenge from Mr Aleksander Kwasniewski, a youthful former communist, looked certain to go to a second round in two weeks, with none of the 13 candidates able to win 50 per cent of the poll yesterday.

Preliminary exit poll results from the PBS unit, published by the Rzeczpospolita newspaper, saw Mr Walesa with 35 per cent of the ballot marginally ahead of Mr Kwasniewski, who was reported to have won 34 per cent of the votes by lunchtime.

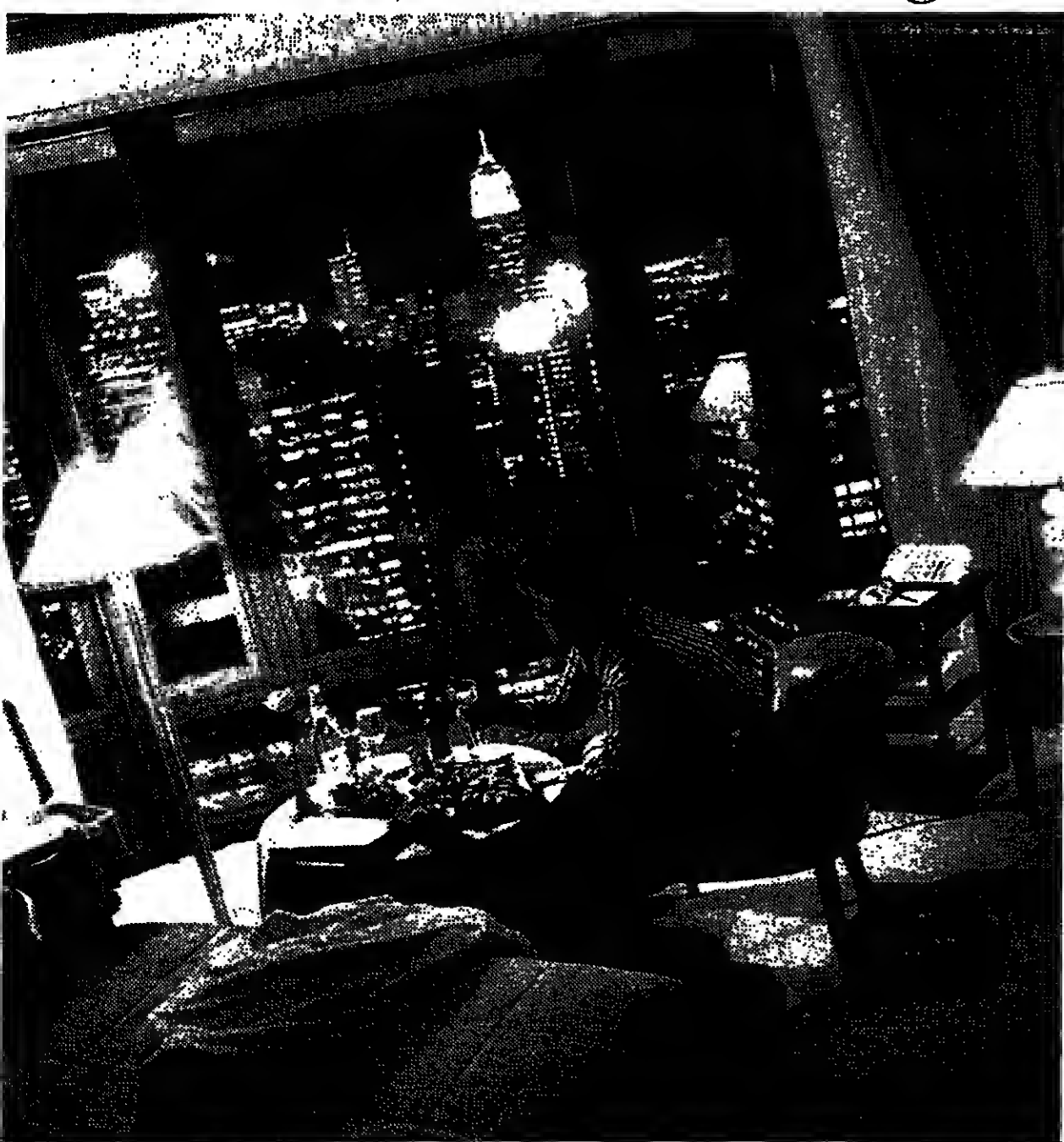
These results would eliminate Mr Jacek Kuron, the former communist and labour minister, who received 9 per cent according to the

exit poll. It also marks a damaging defeat for Ms Hanna Gronkiewicz-Waltz, the central bank head, who with around 3 per cent is expected to fail to achieve her aim of creating a strong centrist Christian Democrat move ment.

The election comes as the government is in the hands of a coalition made up of the Left Democratic Alliance (SLD), which is Mr Kwasniewski's party, and the Polish Peasant party (PSL), whose leader, Mr Waldemar Pawlak, a former prime minister, who also ran for the presidency, appears to have won around 5 per cent support.

Much of Mr Walesa's support yesterday came from Poles who are unhappy at his record over the past five years, but fear seeing both the government and the presidency in the hands of the former communists.

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مكتبة الامير

Okinawa row hits security links with US

By William Dawkins in Tokyo

The US-Japan security alliance hit a new setback over the weekend when Mr Masahide Ota, governor of Okinawa, refused a central government request to extend leases for US bases on the southern Japanese island.

Mr Ota rejected an attempt by Mr Tomiichi Murayama, the Japanese prime minister, to persuade him to sign documents obliging local landowners to extend leases to the US military - which keeps three quarters of its Japanese military installations on the island - when the contracts begin to come up for renewal next March.

His refusal, after a five-hour meeting, makes it extremely unlikely that the Japanese government will resolve the row over US bases, provoked by the rape of a schoolgirl for which three US servicemen have been charged, before Mr Murayama meets President Bill Clinton for a summit in Tokyo on November 20.

Mr Murayama is entitled to order Mr Ota to sign the leases forthwith, and can make a legal appeal to sign in the governor's place if Mr Ota refuses.

Mr Murayama indicated that he would appeal if necessary, court authorisation to override the governor would be unlikely to be withheld. "I will make a judgment on the issue myself," said the prime minister.

This would assure the US presence on Okinawa, though Tokyo and Washington have agreed to study whether the forces could occupy less space. Okinawa is the largest single US base in Asia, housing nearly half the 47,000 US troops in Japan.

The prime minister is under pressure from the pro-US Liberal Democratic party, dominant member of the three-party government coalition, to avoid further harm to the Washington alliance. On the other hand, Mr Murayama has little evident enthusiasm for overruling the Okinawans. Until taking office last year, he maintained the US-Japan pact was unconstitutional.

Mr Ota's action is the first time a local governor has sought to resist US forces in Japan during the 50 years they have been stationed there. It is a mark of how the end of the Cold War has begun to erode Japanese public support for US military protection.

Bhutto tries to allay fears of Pakistan's trusted neighbour

Alleged aid for Islamic militia in Afghanistan concerns Iran

Ms Benazir Bhutto, the Pakistani prime minister, leaves for Tehran today on a visit aimed at easing concern over her country's relations with one of its most trusted neighbours.

For Pakistan, faced with security threats from India on its eastern and southern borders, and from Afghanistan towards the north, relations with Iran remain pivotal to defence policy.

Successive Pakistani leaders have therefore tried to maintain close relations with Iran, the country's western neighbour, which provides Pakistan with its longest secure border. But Iranian officials have become concerned in recent months at Pakistan's alleged support for the Islamic militant militia in Afghanistan, which has emerged as that country's strongest force.

If the Taliban attack Kabul, the Afghan capital, which it has promised to do next week, the balance of power would shift against factions in Afghanistan which have relied on Tehran's support.

Pakistani officials are concerned that the Iranian regime would see such an attack as an



Benazir Bhutto: Iran concern over closer US links

Islamabad-inspired effort to install a puppet government in Kabul. One official says: "We'll try our best to let the Iranians know that we have no involvement with the Taliban. In case there's an attack on Kabul, it would be important for Tehran and Islamabad to maintain close contact."

Reports of tensions in Pakistani-Iran relations have prompted some of Pakistan's leading commentators to call for closer ties with Tehran. Mr Zulfikar Ali Khan, a former chief of the Pakistani air force,

says: "It is in our national interest to have good relations with Iran."

Some Pakistani officials say the closer ties built by Islamabad with Washington during Ms Bhutto's two years in office has added to Iranian concern. Washington cut off military and economy aid to Pakistan in 1990, under the Pressler amendment which called for withholding assistance unless the US president could certify that Islamabad did not have nuclear capability.

The US administration has

refused to provide such certification. But both houses in the US legislature voted last month to sell Pakistan military equipment worth about \$87m (£234m), held back under the Pressler sanctions. This was in part a recognition of Ms Bhutto's efforts to present Pakistan as a moderate Islamic state in a strategically important region, diplomats say.

"The Iranians are probably worried because they see the trends of the past two years as a sign that Pakistan is getting closer to the US," says one senior western diplomat.

Commentators such as Mr Akram Zaki, a former leading Pakistani diplomat, believe Pakistan can simultaneously pursue closer relations with both the US and Iran.

"There is nothing wrong in getting close to the US as long as we don't get involved in schemes against third countries," says Mr Zaki.

Other Pakistani officials say a clash with Iran would endanger domestic security. Pakistan has a substantial Shia minority, many of whom are sympathetic to Iran.

Farhan Bokhari

China rejects call on rights in Hong Kong

By Simon Holberton in Hong Kong

China has rebuffed a call from the United Nations Human Rights Commission for Beijing to file human rights reports about Hong Kong after the colony passes to Chinese sovereignty in 1997.

A senior Chinese government official said at the weekend China had no such intention as it was not a signatory to the international covenant on civil and political rights. This is the second time in a month China has found itself at odds with the international community on human rights issues in Hong Kong.

Three weeks ago Beijing said it would scrap three key sections of the Bill of Rights, an important guarantor of civil liberties, and reinstate six security and broadcasting laws, recently amended to conform with the bill.

The UN commission said on Friday Hong Kong's change in sovereignty was irrelevant to the covenant's application. Once the people of a territory found themselves under the protection of the covenant

"such protection can not be denied to them by virtue of the mere dismemberment of that territory or its coming within the jurisdiction of another state."

Mr Xu Ze, of Beijing's Hong Kong and Macao affairs office, said China was not a signatory state of the rights covenants. He said that the question of human rights in Hong Kong had been "resolved" and that rights were fully protected by the Sino-British Joint Declaration of 1984 and the mainland's Basic Law for Hong Kong.

The Hong Kong government, however, welcomed the UN determination. Mr Daniel Fung, solicitor general, said the committee's view on the application of the rights covenant after 1997 was "an extremely helpful and important statement of international law principles."

The UN committee's report on Hong Kong, although generally favourable, criticised authorities over living conditions of Vietnamese refugees, methods of investigating complaints against the police, and the lack of a human rights commission.

India changes rules on bids for phone licences

By Shiraz Sidha in New Delhi

The Indian government has imposed a ceiling on the number of areas where companies can operate basic and cellular telephone services in the current round of licence awards.

The country has been divided into 20 "circles" and the government has announced that companies will be limited to operating in three of the most lucrative, such as Maharashtra, Gujarat, Karnataka, Tamil Nadu, Delhi, Andhra Pradesh, Punjab and Haryana.

The new rules were imposed by the government after unexpectedly aggressive bidding by a little known company, which topped the bidding in nine of the circles. Fazel, a joint venture between India's Himschal Futuristic Communications, Bezeq Communications of Israel and Shinawatra Telecommunications of Thailand, outbid international telecommunications giants such as AT&T, Nippon and US West.

While licences would be awarded to two companies per telecom circle for cellular services, only one operator would be given a licence to provide basic telephony.

Fazel is a big beneficiary from the revised rules. The company will be allowed to provide basic telephony in three areas, without forfeiting any deposits for reckless bidding in other circles.

Another gainer is the joint venture between Reliance, India's largest private sector company, and Nynex of the US, which has successfully bid for

Higher production and sales of cars and utility vehicles contributed to 27 per cent growth in India's car industry for the half-year ended September 30, Shiraz Sidha reports.

The Association of Indian Automobile Manufacturers said growth had been highest in the utility vehicles sector, with a 64 per cent rise in production and a 50 per cent rise in sales over the same period last year.

Cars registered a 25 per cent increase in sales. The two-wheeler and three-wheeler market registered growth of over 25 per cent.

seven circles. Birla Com, a joint venture between AT&T and the Aditya Birla group, has also benefited.

US West and its joint venture partner, BPL India, on the other hand, have lost out. They will be allowed to choose only one of the most lucrative circles for basic telephony, because it has the highest bids in two southern states for cellular services.

"We were certain that the large bank guarantees imposed would serve as a ceiling, and we did not expect any company to bid aggressively for more than four circles," said Mr R.K. Takkar, chairman of the government's Telecom Commission.

The government will gain about Rs1,100bn (\$31bn) in licence fees from basic telephone operators over the next 15 years, Rs400bn more than it had estimated.

Australia protest at US trade barriers

US trade barriers are costing Australian manufacturers \$600m (US\$448m) a year in lost export opportunities and the sugar industry about \$360m, Mr Bob McMullan, Australia's trade minister, said yesterday, Reuters reports from Canberra.

Releasing a Department of Foreign Affairs and Trade survey of US trade barriers, Mr McMullan said the US had a generally open market. "But in a number of areas of key importance to Australia, the US maintains a range of trade barriers and practices which distort our trade relationship."

This was particularly the case in agriculture, where Australia had a number of long-standing complaints about such areas as sugar and dairy products. He said US farm subsidy programmes had been a source of tension in recent years.

The survey showed the US sugar regime had cut Australia's exports to the US to less than a third of their pre-1982 levels, resulting in a net loss to Australian exporters of more than US\$270m (£170m) a year. The government was pressing the US to suspend these programmes.



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NEWS: INTERNATIONAL

Argentina set for state sector pay cuts

By Matthew Doman
in Buenos Aires

Argentina is likely to announce pay cuts for about 1m state employees today in an attempt to bolster its fragile public finances.

The decree is likely to follow a meeting between President Carlos Menem and Mr Domingo Cavallo, his economy minister, and the governors of the country's 23 provinces to

urge tighter financial management. They will also discuss how to co-ordinate national tax and spending policies.

Mr Menem last week confirmed that government was considering wage cuts of around 5 per cent, saving more than \$500m (\$316m) a year, dismissing suggestions that the cuts could be up to 15 per cent. He also confirmed that the government was considering demanding salary cuts for provincial government workers as part of an overall package.

The case for tighter fiscal control was highlighted last week by figures showing that federal tax collection fell 4.1 per cent in October and was 3.1 per cent below the already downgraded target.

One governor, ex-general Antonio Bussi of the northern Andean province of Tucuman, has already moved to cut his government's wage bill -

ordering a 10 per cent reduction in salaries to be offset by a shorter working week.

But Mr Eduardo Duhalde, the powerful governor of Buenos Aires province, has dismissed the need to cut salaries of employees in his province - which the smaller provinces argue is unfairly favoured in allocation of federal funds.

It appears likely that the president and Mr Cavallo will propose a modest, across-the-

board salary cut rather than demand bigger reductions from more highly indebted provinces.

Many of these pay higher salaries than the national average. Rio Negro and Córdoba, for example, two provinces frequently pressed by Mr Cavallo over alleged financial mismanagement, pay average monthly salaries of \$1,249 and \$1,318 respectively against a national average wage of \$1,005.

Economists remain sceptical that Argentina will be able to balance its budget this year, given the slowdown in the domestic economy and in tax collection.

In August, the International Monetary Fund relaxed demands for a 1995 fiscal surplus of \$2bn, excluding privatisation.

Now it accepts a balanced budget position including privatisation revenues.

Orders clear the air for McDonnell Douglas

Mr Harry Stonedpher, chief executive of McDonnell Douglas for barely a year, has in two weeks booked a brace of complementary orders which could mark a turning point in the fortunes of the group's commercial aviation business and California's battered aerospace industry.

The big one landed late last Friday when the Pentagon announced plans to buy a further \$18bn worth of C-17 military transporters, thus assuring the group's Long Beach military works of at least seven years' work.

Set against the \$1bn deal, announced late last month, in which Atlanta's two-year-old Valujet airline became the first to order the new MD-95 100-seat jetliner, the US defence department contract underlined the huge imbalance between McDonnell Douglas's military and civil wings.

Shrinking sales and market share, as the slump continues in the international commercial aviation market, have fed speculation that the Douglas sheds at Long Beach might soon be razed to provide yet another golf course, near California's tourist trails. The group's share of the commercial aircraft market has tumbled to less than 10 per cent from 22 per cent at the start of the recession five years ago. Part of the problem, say analysts, is that the group's product mix is not rich enough to attract international airlines. These might prefer the one-stop-shopping attractions of Boeing or, increasingly, Airbus Industrie. The MD-95 - successor to the DC-9 - joins a range comprising the mid-sized MD-80, the 115-seater MD-90 and the wide-bodied MD-11.

The anxieties about airlines' purchasing strategies were underlined earlier this year when Scandinavian Airlines System turned unexpectedly away from the MD-95 and to the Boeing 737 instead.

Valujet, a fast-rising newcomer specialising in ticketless flying free of hassles, frills and luxuries such as lunch, may have lacked some of the high-profile characteristics once considered desirable in a launch deal, but its \$1bn deal on 50 MD-95s and an option on a further 50 did more, hopefully, than set the ball rolling.

The order, and the keen price (negotiated only after rumours emerged that Valujet, too, was backing away) gave the clearest indication yet of the impact of Mr Stonedpher's cost-cutting measures. Threats to move the construction of the aircraft to Dallas, Texas, to avoid high Californian costs, doubtless helped.

But the company now has medium-term agreements with trade unions, power and other utilities, and state and local government which allow it a reasonably clear view of future costs. Wage and cost-of-living increases are to be capped at a maximum of 4 per cent a year for the next four years.

As a result of these agreements, the company's 9,500-strong commercial aviation workforce is expected to be expanded by the immediate addition of 400 development engineers and the hiring of 1,500 production line workers when assembly starts in 1998. Knock-on benefits are also expected among local suppliers such as Allied Signal and Teledyne.

Despite the sleight-of-hand usual to aircraft pricing deals, the latest \$18bn (\$11.5bn) military contract served to highlight McDonnell Douglas's costs drive.

Only last week a US congressional committee reported that 80 aircraft would cost \$21bn. As it turns out, according to Mr Don Kozlowski, the C-17 project manager, the group is committed to delivering the new aircraft at two-thirds of the unit price charged for the first batch of 40, ordered by the Pentagon in 1986.

With labour and other costs under relative control, management's main task now is to build on the base provided by the US government's endorsement of the C-17 as a flexible, high-speed replacement for its pensionable transporter fleet of about 220 C-141s, and sell both into foreign markets and to civil airlines looking for new cargo transporters. "It is not a cake-walk, but we can do it," Mr Kozlowski said at the weekend.

Christopher Parkes

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INTERNATIONAL NEWS DIGEST

Kodak steps up assault on Fuji

Lawyers for Eastman Kodak of the US yesterday fired another broadside in support of the company's campaign for US trade action against anti-competitive measures allegedly used by Fuji of Japan to dominate its domestic market for photographic film. In a two-volume document of more than 1,000 pages, the lawyers seek to refute arguments by Fuji intended to rebut Kodak's complaint to US authorities in May. Mr Mickey Kantor, US trade representative, has launched an investigation into the Kodak complaint under Section 301 of US trade law and requested consultations with the Japanese government. Japan's Ministry for International Trade and Industry has declined to enter negotiations with Washington, insisting that the dispute is between the companies, not their governments, and involves issues of competition law, not trade policy.

Yesterday's document, prepared by the Washington office of Dewey Ballantine, Kodak's lawyers, seems at least partly intended to keep its complaint in the public eye and to maintain pressure on US trade policymakers, who have until next summer to decide on action. One of the main points in the document, which relies heavily on press reports and official Japanese government figures, is an allegation that Fuji had substantial cash "security deposits" from the four main Japanese wholesalers of photographic film. The document says the deposits bear out Kodak's claim that Fuji effectively controls the wholesalers, an assertion vigorously denied by the Japanese company.

Close Trinidad result forecast

Opinion polls are predicting a close win for the incumbent People's National Movement in today's general election in Trinidad and Tobago. But Mr Patrick Manning, the prime minister and leader of the PNM, and Mr Basdeo Pandey, leader of the main opposition United National Congress, have both dismissed the polls, each saying they expect to win by a significant margin.

The UNC's prospects of victory have improved in recent weeks with the appearance on its platform of several former leading members of the PNM, including former ministers. But Mr Pandey failed in an effort to strengthen his challenge to Mr Manning through creating a coalition of his UNC with the minority opposition National Alliance for Reconstruction, led by Mr Arthur Robinson, a former prime minister.

Mr Manning, who is seeking a second consecutive term, called the election a year before it is due after the government's parliamentary majority had been reduced to one, following deaths and defections of MPs and a loss at a by-election.

Caroline James, Port of Spain

Slush fund inquiry widens

South Korean prosecutors yesterday said they planned to investigate the bank accounts of two prominent businessmen to determine whether they bribed former President Roh Tae-woo in return for government construction contracts. The two businessmen are Mr Chung Tae-soo, the chairman of the Hanbo group, and Mr Bae Jong-yul, the former chairman of the Hanyang group.

Prosecutors said they had confirmed, after questioning Mr Chung, that Hanbo had laundered Won59.9bn (\$50m) from Mr Roh's hidden bank accounts and used the money as a loan for the group, which has a large debt burden. Hanbo, a steel and construction conglomerate, had a gearing ratio of 517 per cent in 1994, according to SBC Warburg Securities in Seoul. Mr Chung and Mr Bae are alleged to have made sizeable contributions to Mr Roh, who recently confessed to have amassed a \$650m (\$410m) slush fund from business donations during his 1988-1993 term.

The former head of Mr Roh's presidential security guard told prosecutors last week that many businessmen had personally handed over to the president sums of money ranging from \$500,000 to \$10m. Meanwhile, prosecutors obtained court approval to maintain surveillance on Mr Bae's home and family after he went into hiding last week.

John Burton, Seoul

Argentine munitions toll rises

The death toll from an explosion in an Argentine munitions factory in Córdoba province rose to 13 over the weekend, with 200 workers still unaccounted for. Many of those missing may have fled the central Argentine town of Río Tercero where the defence ministry plant is located. Bombs and shrapnel continued to pepper the town yesterday, following a fire in the plant on Friday.

Authorities, fearing that fire could spread to an underground heavy artillery depot, said they did not know when it would be safe to enter the plant. Some 330 people were injured in the initial blast, which was heard throughout a radius of 30km. President Carlos Menem, who visited the site shortly after the explosion, has promised to provide government money to help rebuild Río Tercero and compensate victims.

David Pilling, Buenos Aires

Typhoon kills over 500

The death toll rose above 500 yesterday from the strongest typhoon to hit the Philippines in 11 years, and officials said about 280 people were still missing.

They added that typhoon Angela, which smashed through the Philippines' main island of Luzon on Friday, had caused at least \$80m pesos (\$21.5m) damage to agriculture and more than 1bn pesos property damage. Nearly 20,000 people were left homeless.

AP, Manila

CONTRACTS & TENDERS

SECTION - I

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2. The Ministry of Interior assumes itself for the liquidation of total amount within 2 (two) years.
3. Cost of Bidding Documents: USD 100
4. Period of bid validity will be not less than 60 (sixty) days from the date of bid submission deadline (bid opening date).
5. Bid opening date will be 45 days from its announcement date in the press.
6. Bid submission deadline and bid opening date will be on 21.12.95, 12.00 (midday) (local time).
7. A complete set of Bidding Documents are available at Procurement Department of MCI and may be purchased by any interested eligible Bidder on the submission of a system application and upon payment of the aforementioned non-refundable fee on account no.333030 of Economic Department of MCI at National Commercial Bank - Branch of Tirana.
8. Bids will be opened in the presence of Bidder's representatives who choose to attend on 12.00 (midday) at Ministry of Interior. Interested eligible Bidder may obtain further information from the office of:
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9. All bids must be accompanied by a bid security of not less than 2% of bid offered price, which must be delivered to the above office with the Bidding Documents on or before 12.00 (midday) (local time) on 21.12.95.
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مكتبة الامير

Business warns over 'shrill' debate on Europe

By Michael Cassell,
Business Correspondent

Britain's business community will today unite to warn the government that the "shrill and badly informed" political debate on Europe in the UK parliament is threatening to undermine the country's economic interests.

The employers' body, the Confederation of British Industry and the British Chambers of Commerce will publish the results of the largest-ever survey of UK business opinion on Europe. It confirms overwhelming support for Britain's continuing EU

membership, but highlights impatience and frustration with the tone of present arguments over the shape of future European development.

Sir Bryan Nicholson, CBI president, said most of the survey, which sought the views of 5,000 companies from all sectors and of all sizes, shows "no support for a shrill, xenophobic, nationalistic debate which does not deal with the real business issues".

He added: "Being bloody-minded is not the way to defend national interests. There is a very strong desire in industry for rational and properly informed debate. Without that, we could end up making the wrong decisions."

Sir Bryan said UK industry remained fully committed to Europe, but important arguments over European development were being smothered by political rhetoric unhelpful to companies operating in EU markets.

Mr Robin Geldard, president of the BCC, echoed his view: "Businesses admit they are not well informed about crucial European issues. They have not got the information they so badly need."

"For too many politicians, Europe has become a vehicle for their flights of fancy; the national debate must be less political and more practical," he said.

Calling on the government to maintain an open-minded approach on issues such as economic and monetary union, Sir Bryan referred to suggestions that Mr John Major, the prime minister, is considering a pre-election manifesto commitment to rule out British membership of a single currency in the lifetime of the next parliament. Such a decision, he said, "would go down like a lead balloon" with industry.

Sir Bryan said although the survey showed business was "positive" about the benefits of a single currency, it overwhelmingly supported the government's present, opt-out position,

allowing it to consider fully the advantages and disadvantages of joining at the appropriate time.

"Why not stick to it, why change?" To give a commitment now not to enter before a particular date would be unacceptable.

Industry leaders had felt vulnerable to charges that their public stance on Europe and on issues like ERM did not necessarily have the broad backing of business.

But both the CBI and the BCC believe they now have a mandate for spelling out industry's views in the run-up to next year's EU intergovernmental conference.

NEWS DIGEST

US competitor set to undercut British Gas

Amerasia Hess, the US oil company, will undercut British Gas prices by 15 per cent next April when 500,000 consumers in the south-west of England will be allowed to choose their gas supplier. The company, which is one of the larger North Sea oil and gas producers, says it will guarantee the lower prices for two years. But consumers will be able to cancel their contract with Amerasia Hess by giving 28 days notice.

Ms Caroline Harper, the executive in charge of the Amerasia Hess natural gas business, said she expected the company would be able to offer a similar discount nationwide when the full residential market of 18m households was opened to competition in 1998.

The announcement by Amerasia Hess is the first evidence that competition will result in lower gas prices for consumers. In the past competitors to British Gas have held out the prospect of savings of around 10 per cent. But some industry executives doubt whether large numbers of consumers will switch for such a relatively small saving. The government is keen that gas competition, which has proved to be politically contentious, results in considerable price cuts for consumers. It is not known whether British Gas will match the discount.

Robert Curcio, Industrial Staff

Managers may buy dockyards

The future of Britain's two Royal Navy dockyards will be considered again by ministers this week, with the likely outcome that the Rosyth yard in Scotland will be sold to its managers, Babcock International.

But Mr Michael Portillo, the defence secretary, could be faced with the political embarrassment of having to abandon the sale of Devonport dockyard because of problems in doing a deal with its managers, DML Babcock, the only bidder for Rosyth, is confident it is on the verge of acquiring the Fife dockyard, which it has managed for the Ministry of Defence since 1987. Executives expect Mr Portillo to make an announcement before Christmas. George Parker, Westminster

Swans set for first contract

Swan Hunter, the Tyneside shipbuilder sold by receivers in June, expects to win its first contract under its new ownership within the next eight weeks. Since receivers Price Waterhouse sold Swan Hunter's name and its main Wallsend site for an undisclosed price, thought to be about £1m, the new Swan Hunter (Tyneside) has been waiting for its first order.

But Mr Jan Veldhuizen, the managing director, says he is confident the company is within weeks of clinching a project which, by Easter, would mean contract employment for up to 300 workers.

Swan Hunter (Tyneside) is waiting to hear about several contract possibilities. These are believed to include work from Singapore and a tanker conversion needed for Conoco's MacCulloch North Sea oilfield.

Swan Hunter went into receivership in May 1993. In June this year receivers Price Waterhouse sold the yard to Jersey-based THC Holdings (UK). A day later, THC sold its main subsidiary, Harlepool-based THC Fabrication, to Dutch-owned Heerma Fabrication Group. Swan Hunter is now owned by Mr Jaap Kroese, THC's principal shareholder. Mr Veldhuizen was previously managing director of THC Fabrication.

Chris Tighe, Newcastle-upon-Tyne

Government set for showdown on 'sleaze' vote

By James Blitz,
Lobby Correspondent

The government could face a serious embarrassment in tonight's House of Commons vote on the implementation of the Nolan report into so-called "sleaze" and public standards, amid signs that Ulster Unionist MPs may support public disclosure of MPs' incomes from outside interests.

As Westminster braces itself for one of the most charged political occasions of recent years, Mr David Trimble, leader of the Ulster Unionist party (the largest party in Northern Ireland), said he supported the disclosure of MPs' incomes from private consultancies, and that he would "probably" turn up at Westminster to support a crucial opposition amendment implementing the proposal.

Mr Trimble said he was in favour of "maximum openness" in matters relating to the public's confidence in its institutions, and that his preference was for disclosure of outside income.

A Conservative whip admitted that the appearance of any of the Ulster Unionist MPs in the division lobbies tonight would be critical in deciding how the Commons voted on the issue and would make for an "extremely close result".

Senior ministers yesterday continued to back the recommendation of a Commons committee which has scrutinised the Nolan committee's findings. The committee last week recommended a ban on paid advocacy, but said MPs should not be required to disclose outside earnings from consultancy work.

Tonight's debate will be followed by a series of free votes in which MPs can choose which division lobby they go into. But senior Tory MPs privately admitted that the government would find it hard to avoid a major political embarrassment if the Commons voted in favour of the Labour amendment calling for disclosure of earnings.

The government has a working majority of six over all other parties, including the Ulster Unionists, but four Tory MPs have said they wish to see full disclosure of income from outside interests.

Some MPs are hoping the Commons might back one of the two compromise motions that have been put forward for tonight's debate. These would force publication of the remuneration for commercial contracts secured as a result of an MP's parliamentary work - but the rule would come into effect only after the next general election.

Fork lift boss back in business

By Andrew Baxter in London

Sir Neville Bowman-Shaw, who lost control of the Lancer Boss lift truck group when it went into receivership last year, is building a sales and distribution business that competes with his former company and its new German owners.

Bowman Mechanical Handling, which Sir Neville set up late last year, has bought the authorised dealers for Clark lift trucks in northern England and in northern East Anglia. The trucks are imported, mainly from Germany.

The takeover has put Sir Neville in direct competition across about one-third of England with both Boss Group, his former company, and Hamburg-based Jungheinrich, which bought Boss from receivers in May last year.

Sir Neville, aged 65, founded Lancer Boss in 1988 with his brother Mr Trevor Bowman-Shaw. They owned all the shares in the company, which collapsed in April last year in a controversial receivership that Sir Neville has maintained need never have happened.

Sir Neville is unabashed by the prospect of competing for sales with his former employees. "I don't think there is much room for emotion in industry," he said. "Lancer Boss is a chapter that's closed, or I would like to think it is closed."

Sir Neville said he returned to the lift truck industry because he knew it well, but he has no plans to begin manufacturing. "There are too many manufacturers already,



Sir Neville Bowman-Shaw will be in competition with both Boss Group and Jungheinrich

so it was sensible to go into distribution. You can make a bigger impact more quickly."

He was also attracted by selling machines made by Clark, which has more lift trucks in service worldwide than any western producer but slipped down the international rankings in the 1980s as its products became outdated.

Since 1992, however, when the Clark lift truck business was bought by Terex of the US, its product range has been extensively modernised. Ironically, Terex lost to

Jungheinrich at the last minute in last year's battle for Lancer Boss.

Bowman's first acquisition came this spring, with the purchase of Stephensons, based in north-west England, and was followed by that of Midlands-based Avant. Sir Neville is also looking for a Japanese and a Pacific Rim product range to distribute elsewhere in the UK.

Sir Neville would not say how much he paid for the dealerships, although it is believed Stephensons, now Stephensons BMH, cost about

£2m (\$3.1m). The purchases were partly bank-financed, and Sir Neville says he has continued to receive support from NatWest, his main banker at Lancer Boss. His brother has a small shareholding in Bowman.

Since the Lancer Boss receivership, Sir Neville has also been appointed non-executive chairman of Forexia (UK), the foreign exchange forecaster. He has branched out, too, into property development, on a small scale - just "a few houses".

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BT

THIS WEEK

Echoes persist from 'years of lead'

Italy's Red Brigades terrorist movement patented a chilling slogan in the 1970s: "Kill one to educate 100." This cold-blooded extortion typified the Red Brigades' arrogant belief that they could accelerate the course of history and overthrow Italy's corrupt capitalism.

Today, two decades later, it is hard to believe that Italian society was forced to take seriously the inventors of such a language of hate. Yet between 1976 and 1980 the Red Brigades "executed", in the name of the oppressed masses, 96 people and wounded scores more - their most sensational action being the kidnapping and murder of prime minister Aldo Moro.

The enormous prosperity generated during the 1980s, combined with a good dose of amnesia, has allowed most Italians to draw a veil over that grim period of terrorism known as the "years of lead".

Members of the Red Brigades are themselves either in prison or reformed, some re-inserted in society with new identities. But some still bear the scars as victims of this "war". Sergio Lenzi, a professor of architecture at Rome university, actually retains a bullet in his skull. In 1980 he was shot at point blank range after being bound and gagged in his Rome studio by a leftist commando group composed of three men and a woman.

They left him for dead and telephoned a newspaper claiming they had executed a servant of the multinationals.

Lenzi became obsessed with the question "Why me?", and went on to seek his assassins in prison after they had been arrested. He never got a satisfactory answer, although he was probably singled out because he had designed Rome's notorious Rebibbia prison. Confronted by him, the woman said she was sorry, as though she had merely stepped on his foot.

These experiences Lenzi noted in a book, which inspired the script of a film just released, called *The Second Time*. The film was shot in the sombre grey light of Turin with a professor (complete with bullet in his skull) suddenly recognising his aggressor of yesteryear as she gets off a bus. He has made a shaky recovery from the trauma; she is on parole, working in an office by day, returning to prison at night.

Gradually the professor - rivetingly played by Nanni Moretti, Italy's cult actor-director - engineers a confrontation. At

first the ex-terrorist does not even recognise him, mistaking him for a potential admirer. When she does realise his identity, she has no answer to the "Why me?" question. She is blank when he insists on wanting to know how the death of a minor academic would help undermine the state. The *Brigatista* can only say that she - and times - have changed.

On one occasion, when the professor pesters her, she threatens to call the police. This draws a sardonic comment from the professor, to the effect: "You used to kill people and hate the state, now you want the police." She does not even attempt an ideological justification of her past. It is left for the professor to rectify the Red Brigades' texts. The sterility of these is underlined by seeing the professor repeating, mantra-like, "Kill one to educate 100", as he exercises on a cycling machine in his study.

The message is bleak. The terrorists committed appalling crimes with ignorant

fanaticism and are incapable of making amends to individuals, though perhaps they can to society. Nor can the victims achieve catharsis, as they cannot get inside the psyches of their aggressors.

Although a bit heavy handed, the film marks the first attempt on celluloid to come to terms with the relationship between victim and *Brigatista*. The issue is important because until now the terrorists - or ex-terrorists - have had the lion's share of the publicity and have painted themselves as victims of society.

Mostly from working class families or lower middle-class origins with strongly Catholic backgrounds, they were the victims of the failed student revolution of 1968 and the stolid hegemony of the Italian communist party over traditional left-wing politics. Their violent (and criminal) actions were often rationalised as an understandable short-cut to re-ordering Italian society.

It seems Nanni Moretti accepted the part with the deliberate aim of identifying himself with the professor's predicament. With his films idolised by the left and regarded as politically correct, Moretti has not surprisingly, stirred up controversy by belittling the Red Brigades' ideological baggage



and for attacking the *Brigatisti* for enjoying too much public airtime.

Alberto Franceschini, an ex-member of the Red Brigades who has dissociated himself from his past, criticised the film for its claim that victim and aggressor have nothing to exchange except banalities. Franceschini, who has written a book about his terrorist experiences, argues that it is precisely because the Red Brigades caused so much harm to society that they must speak up.

However, a proper understanding of the Red Brigades phenomenon is obscured by

the suspicion that the terrorists were themselves manipulated. Almost certainly the *Brigatisti* started out in the early 1970s as revolutionaries in the northern industrial cities with a genuine, though misguided, belief in armed struggle.

But enough evidence has accumulated to indicate that their cells were subsequently infiltrated by the security services. The latter had a vested interest in playing up the leftist threat to prevent the communists from winning the elections. The circumstances surrounding the Moro kidnapping have never been properly clarified.

The suspicion grows that the prime minister was eliminated because he was proposing a government deal with the communists, against the interests of some politicians and elements of the Italian state. This point is made in the prosecution documents prepared by Palermo magistrates for the trial this autumn of former premier Giulio Andreotti.

Prof Lenzi recently told a journalist he believed his would-be assassins had been sent either by people linked to the university or to the ministry of justice, or both. "Poor things," he said, "manipulated and sent to kill without knowing why."

If so, the terrorists were also victims: not of society but of their own gullibility. The final irony is that their actions, instead of accelerating change, made Italian society more resistant to change.

PEOPLE

Strube: steering BASF toward broader horizons

Jürgen Strube, the chairman of BASF, has made an art of delivering bad news since his appointment in 1990. Each time he has had to announce another setback, he has managed to inspire the belief that things can and will get better.

He may find it necessary to exercise that skill again on Thursday, when he presents the German chemicals group's third-quarter results.

Between 1989 and 1993, BASF's pre-tax profits fell from DM4.4bn (\$2.8bn) to DM1.1bn, and its return on sales from 10.6 to 3.8 per cent, despite a 20 per cent cut in the workforce and a hefty restructuring.

A sharp recovery since then was boosted by surging prices, which have now gone into reverse, setting up this week's results as a test of the group's resilience. If the news is not bad, thanks will be due to Strube.

In his role as BASF boss, Strube has broken the mould. His predecessors were all scientists, whereas Strube, with a law degree, joined BASF as a financial trainee, adapting quickly to the life of an expatriate manager and spending 15 of his 27 years with the company abroad.

He took over a hierarchical company, based mainly in Germany and dominated by commodity chemicals, just as the cost of both was being driven home. His response was a radical restructuring. He has, however, done more than square up to the expense of redundancies and to the group's cultural resistance to rationalisation.

Strube has forced BASF's management to start thinking and behaving internationally; a strategic shift that owes much to his powers of persuasion.

The company's single largest manufacturing operation remains the company town of Ludwigshafen.



After 15 years abroad, Strube can find his colleagues rather parochial.

But, says Strube, BASF's days as a German company are over. "I do not even consider it a European company. By 2010, our aim is to be transnational."

There is a simple rationale to this. BASF has long been bound by an industry cycle that can add or subtract 60 per cent to chemical prices in as little as six months: altering the balance of the group's global business is its best defence against future troughs, says Strube.

Under his guidance, BASF has invested heavily in overseas plants, cutting the proportion of its sales sourced in Europe from 77 per cent in 1991 to 72 per cent by last year.

The company has also been diversifying into businesses which are less sensitive to the cycle - notably through a DM3.3bn investment in a gas pipeline network developed with Gazprom of Russia. The joint venture is expected to break even

this year - "against fierce competition", says Strube - and to yield DM300m to DM500m towards group profits over the next three years.

It has also started to expand its pharmaceuticals business, with the acquisition, earlier this year, of Boots' drugs operation. With pharmaceuticals margins well below the industry average, BASF has been criticised for doing too little too late to establish itself as a viable drugs manufacturer.

But Strube is determined that the group should pace itself. There will be more acquisitions, he says, but not until the Boots business has been fully integrated, which will take until the end of next year.

In the medium term, he holds out the prospect of pharmaceutical joint ventures in the far east: a teaser that is typical of his global view.

Having spent so much time outside Germany, he says he finds many German attitudes parochial, and tainted by too much comfort. To drive the point home, he relates the conditions he saw while working in Brazil in his own childhood in post-war Germany.

"Food was not available. The hygienic conditions were bad. Heating was something which was only sometimes available. Drinking water was not necessarily clean and quite often people actually fought for food in the areas where we were living," he says.

Strube's message may sound emotional. But his job, he says, is to provide BASF with purpose, and to broaden its horizons overseas.

It will be a slow way of gaining strength after the triple blows of German unification, new competition in Asia and the restructuring of the chemical industry. But that is Strube: a born traveller and internationalist.

Jenny Luesby

NAMES IN THE NEWS

ENI's Bernabe spreads the gospel of privatisation

Franco Bernabe, the chief executive of ENI, the Italian state oil concern, has been enjoying the rare pleasure of a public sector success story, writes Robert Graham in Rome.

Over the past three years he has piloted ENI through troubled waters to the point where 21 per cent can be privatised in the biggest over Italian state sell-off. He is now on the ENI privatisation road show, drumming up support from international investors and explaining the transformation of the group, with 1994 profits of over L3,200bn (£1.25bn).

Bernabe, aged 47, is the complete opposite of all his predecessors in the job, who have usually been engineers with heavyweight political connections.

Initially Bernabe taught economics at Turin University. He moved on to a senior economist's post with the OECD in Paris, and then to Fiat, where he ran the automotive group's prestigious economic research department.

In 1983 he joined ENI as personal assistant of Franco Reviglio, a Turin economics professor who had taken over the group's leadership. He rose to be head of planning, and in 1992 managing director.

Then, in the spring of 1993, Giuseppe Cagliari, the chairman, was arrested on corruption charges, alongside with the heads of all the main subsidiaries. The discrediting of the

old guard gave Bernabe the leeway to carry out the major rationalisation ENI needed.

Despite his mild manner, Bernabe has proved a tough manager. He has also convinced the sceptical oil men in ENI that he knows the oil business, and persuaded the politicians that he is neutral. For the moment he appears to have no intention of moving on. But his is a star to watch.

Proton taken into Yahaya Ahmad's stable

Quietly spoken Yahaya Ahmad enjoys life in Malaysia's corporate fast lane, writes Kieran Cooke in Kuala Lumpur.

A British-trained transport engineer, Yahaya is on his way to be crowned the country's leading motor magnate following completion of a complex, highly leveraged £700m deal which will see him take control of Hicom, the Malaysian heavy industrial group.

Companies in the Hicom stable include Perusahaan Otomobil Nasional or Proton, the manufacturer of Malaysia's national car. Yahaya is buying his controlling 52 per cent stake in Hicom from Khazanah Holdings, the state investment company.

Still in his mid-40s, Yahaya is seen as one of a small group of *bumiputra*, or native Malay businessmen, who are being pushed to prominence by the government of Mahathir Mohamad to compete with the tycoons in the country's economically powerful Chinese community.

The bulk of his corporate dealings so far have been in the motor business. But one of his companies is involved in building Kuala Lumpur's new international airport. And through the Hicom deal, Yahaya will gain control of a bank to add to his other financial services operations.

Add in a waste disposal business, plantations, property development, oil field services and software distribution, and Yahaya controls a more or less complete showroom of Malaysia's corporate wares.

FILM/VIDEO



Living in Oblivion: started as a short, then grew to 90 minutes

■ Funniest film of the week, possibly the year, is *Living in Oblivion*. This is a comedy about things going wrong on a movie set, which may prompt you to think you see enough of the results of that without viewing the process. This week alone brings *To Wong Foo, a drag comedy* in all senses starring Patrick Swayze, and a fey lesbian romance from Canada, *When Night Is Falling*.

Living in Oblivion has no pretensions. Made by low-budget US director Tom DiCillo (*Johnny Suede*), it started as a short, then grew to 90 minutes. En route it gathered its cast of charismatic crazies, from the neurotic young director (Steve Buscemi) to the certifiably vain leading man (James LeGros) to the love-troubled actress who, in the film's finest set piece, sniffs seven preciously prepared takes in a row.

As a satire on movie-making, it ranks not far below *The Last Tycoon* and *Singin' in the Rain*. And look carefully - it may also have the most impudently extended

dream sequence in modern moviedom.

■ Unless we count the 39th London film festival: an hallucination spread over a fortnight. This week's viewing list includes the Irish Troubles drama *Nothing Personal*; three haunting Oriental epics, *Shanghai Triad*, *Blush* and *The Day The Sun Turned Cold*; the gloriously OTT Anglo-Russian shocker *Mute Witness*; the new Woody Allen, *Mighty Aphrodite*; and Portugal's prize-winning *God's Comedy*, which explains - in case you didn't know it - the link between sex, ice cream and Richard Wagner.

■ There is nothing so momentous on video. But those suffering Halloween withdrawal symptoms can go and buy five just-released blood-curdies: *Interview With The Vampire*, *Legend Of The Werewolf*, *Paranormal II*, *Wolf* and *Frankenstein*. Happy haunting.

Nigel Andrews

MUSIC

■ The battle to issue the biggest bumper box set in time for the Christmas gift market has begun in earnest with the release of *La Divina Complete* on EMI, a four-disc collection of Maria Callas arias and interviews. It is difficult to say anything new about Callas's singing; suffice to say that the three *La Divina* collections contain moments of ravishing beauty, as well as some genuinely ugly sounds, especially in her later work. The fourth disc consists of a somewhat obsequious interview with Edward Downes from the late 1960s, which perfectly shows Callas's legendary intensity - and her total lack of humour.

■ From the same label, three new discs featuring the late Jacqueline du Pré to commemorate the 50th anniversary of her birth. One is a coupling of her famous performances of the Elgar and Dvořák cello concertos; the others pair Strauss' *Don Quixote* with Lalo's cello concerto in D minor, both unreleased recordings, and Delius's cello concerto with a remastered recital programme.

■ *Love Songs*, on the Rocket label, is advertised as the "definitive" collection of Elton John ballads. At a generous 77 minutes' worth of schmaltz, it may well be the only Elton John album anyone needs to have, as his upbeat numbers have always struck me as a little puerile.

■ When, how and why did "easy listening" become hip again? Has life become so frenetic that we need the soothing muzak of Burt Bacharach and The Sandpipers to help us along our way? Bacharach's debut album for A&M, *Reach Out*, and The Sandpipers' *Guantanamo* on the same label are both re-released to meet this apparently massive demand for elevator chill-out sounds. James Last can be put to a couple of floors away...

Peter Aspiden

FT GUIDE TO THE UK'S DISABILITY DISCRIMINATION ACT

I hear there will be another demonstration at Parliament this week by disabled people. Hasn't the government just passed a new disability law?

That is the problem. The Disability Discrimination Act is due to go on the statute book this week, but many people, including most of the disabled lobby, feel it doesn't go far enough.

What's the law meant to do? Essentially, make it illegal for an employer to discriminate against disabled people at work or for businesses to discriminate against disabled customers. For Britain's 6.2m disabled people, especially for the 3.8m of working age, it's a long overdue recognition of their right to live as normal a life as possible.

Very noble. But what are the implications? Hard to say. Businesses with fewer than 20 employees are exempt on the grounds that forcing their compliance would probably prove too costly; everyone else will be required to make "reasonable adjustments" - to offices, shops, factories - where physical or administrative barriers are perceived to have discriminated against disabled people. It will also be illegal for businesses to refuse to serve disabled customers, and any direct discrimination against people with disabilities will be outlawed. To confuse matters further, the law will not apply to those with "substantial impairment".

Sounds a bit like the EU social chapter that the UK has opted out of. Are Brussels' bureaucrats at work again? No, as it happens. The UK is the first country in Europe to enact this type of legislation, although the US and Canada have laws already.

It all sounds costly. What's the bottom line? American research into the costs of their own act, which is much tougher than Britain's, suggests that in 89 per cent of cases making "reasonable accommodation" for disabled employees to perform their jobs costs less than \$1,000 per person. The UK government expects the average cost of "reasonable" adjustments to be about £200 per employee.

But it could be much higher if the government, which currently pays for adjustments needed to enable disabled people to do jobs under its Access to Work scheme, decides that under the new law it can pass some of those costs to business. Making use of specialist groups such as Blind in Business, which have experience in matching companies with disabled employees, could help defray expenses.

Doesn't sound too bad. So what has the debate been about? Are employers still clashing with groups that represent the disabled?

No. Many big businesses have joined in criticising the act on the grounds that it doesn't go far enough and is vague. The chief problem is the National Disability Council that is due to be set up to monitor the legislation. It is supposed to be analogous to the Equal Opportunities Commission and the Commission for Racial Equality, but will have fewer powers and less money than either.

As things stand, it will have a total budget of only £250,000, far less than the £8m and £15m going to the other two bodies respectively. And, unlike its counterparts, the NDC will not be autonomous or have exclusive authority in the area of disability: it will be complemented by the existing National Advisory Council on the Employment of People with Disabilities, which will continue to oversee the employment-related part of the legislation.

Both bodies are empowered only to advise respective ministers; they are not able to commission their own research on the strength or weakness of existing

services or the effectiveness of legislation when it comes into practice.

Potential for confusion, then? That is only part of it. Unlike ethnic minorities or women, there's no clear definition of who qualifies as disabled. As things stand, for example, progressive conditions like cancer and multiple sclerosis will be covered, but people with a history of mental problems will not.

Different disabled groups have different needs. What is helpful for the blind may not suit the deaf, while the physically disabled have different requirements altogether. Add to that the way in which previous legislation for the disabled has been cobbled together over the years and the result is that the Departments of Health, Social Security, Education and Employment - even Trade and Industry - are all responsible for some programmes that affect the disabled, while a huge array of lobby groups, from Mencap to Scope, have their own constituencies to answer to.

Bit of a mess. Can it be fixed? Probably not at this stage, though some business-related lobby groups are working hard to get the legislation changed. Most prominent is the Employers' Forum on Disability, which has more than 140 corporate members, including some of the UK's biggest companies, and has put together its own "agenda for disability" which gives clear guidelines for action.

It is trying to persuade the government to set up a one-stop shop



Access long overdue: disabled protesters in Whitehall

- a central body that would co-ordinate all the bits of disability legislation - under a disability rights commission with clearly defined responsibilities and a larger budget.

Why won't the government do it? Because it still feels that disability legislation is not really comparable to race and gender legislation, for example, and does not merit clear guidelines. It is also still worried about potential costs, and claims that an umbrella organisation would be an unwelcome "centralised, bureaucratic, monitoring and policing body".

Interestingly, though, that stand might have cost the Conservatives a seat in parliament: Alan Howarth, the Tory-turned-Labour MP for Stratford-upon-Avon, had been highly critical of the government's reluctance to tighten the legislation.

So we've got to wait and see? Yes. If nothing else, disabled protesters should now have easier access to parliament. Westminster itself is subject to the legislation, and will soon have to make its own "necessary adjustments."

Mark Suzman

les Echos

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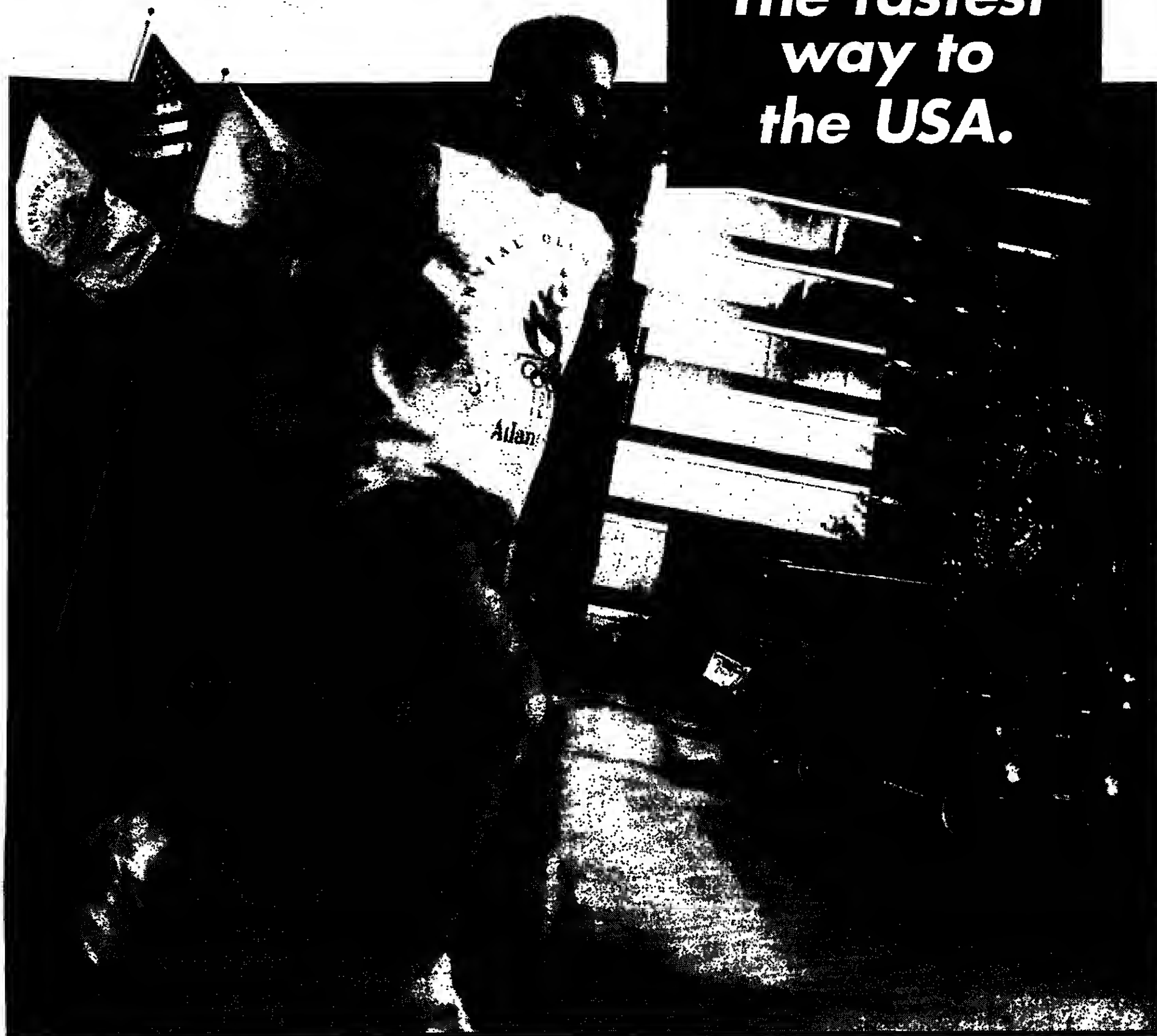
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MANAGEMENT

Japan and China offer fertile ground for joint ventures, provided they are handled properly

Principles of a profitable alliance

Foreign commercial diplomats in Tokyo admit to marvelling at the number of potential joint ventures with Japanese companies that never get off the ground. All too often, they complain, prospective western partners shy away because Japanese management practices are thought to be too different to justify the risk of doing business in one of the world's most expensive countries.

The truth, according to David Davies, chairman of the British precious metals technology group Johnson Matthey and a Japanese joint venture veteran, is that the principles of a successful alliance are much the same in Japan as anywhere else. Japan may not be as unique as usually portrayed.

Davies' view is based on his experience of one joint venture that ended in an amicable partial separation and another that is exceeding both partners' targets, just over a year after start-up.

One lesson he has learnt is the importance of control. "If you can get management control - by which I mean the CEO - that is worth its weight in gold. But first, there must be a real - rather than perceived - community of interests. Then you must have a divorce mechanism, because that community of interests is not going to last forever. There must be some way of being able to progress, to look beyond the next five years," says Davies.

Another observation is that the technique for bridging the cultural gap is much the same as anywhere else: hire a bilingual local director who commands both sides' trust.

Personal relations between directors on both sides, though, are more important than in the west. Davies visits Japan at least twice a year to meet and to discuss strategy with his opposite numbers at his new partner, Mitsubishi Chemicals.



The UK group first put its toe in the Japanese joint venture water in 1989, when it formed an equally owned alliance with a family-owned precious metals dealer, Tanaka Kikinzoku, (which had management control). This suited JM's traditional business, selling platinum

and other precious metals to industry. Since then, however, JM has diversified from its core business into higher technology areas, such as platinum car exhaust catalysts and exotic alloys for the electronics industry, while Tanaka stuck to its origins as a distributor.

By the start of this decade, JM had nearly 40 per cent of the world catalytic converter market, but less than 10 per cent in Japan. Clearly, the joint venture was unable to help in this new JM area, but that does not mean it had failed, stresses Davies. Rather, JM's Japanese strat-

egy had changed. The answer, felt Davies, was to go it alone and build a technical centre near the main Japanese car producers' R&D units, to design converters for use in their exports and overseas factories.

It was vital, recalls Davies, to maintain good relations with Tanaka, which was to continue as JM's sole Japanese distributor of platinum, an important business for the UK company. There was no divorce mechanism in the Tanaka venture, so JM had to rely on the diplomacy of a former JM chief executive who had known the Japanese company for many years and negotiated the partial parting.

JM chose a Japanese - Yuichi Katoh, a Harvard business school graduate - to run its new stand-alone catalyst operation. His previous senior jobs at a string of US banks have qualified him to bridge the cultural gap with staff and customers.

Under Katoh, the Katsuregawa centre this year hit its target 12 months early - to double the UK company's share of Japanese car makers' worldwide purchases of catalytic converters to 16 per cent.

JM was not even thinking of re-entering a Japanese joint venture when in 1992 it was approached by Mitsubishi Chemical, Japan's largest general chemicals group.

Mitsubishi was seeking quick access to JM's technology for making titanium sputtering targets, used to deposit a thin metal film on semiconductor chips to control electrical properties and heat. The Japanese group already makes aluminium targets, the main technology in a tiny ¥200m (£1.3m) Japanese market, of which it has a 30 per cent share.

Titanium, however, is expected to replace aluminium targets in the next few years, and JM had the edge in this technology due to its ownership of the world's leading

supplier of high purity titanium. Alta, a US-based metals company.

In return, the Japanese group was prepared to offer its partner a manufacturing facility and use of its extensive distribution system.

What also told in JM's favour was that "making money did not seem to be their first priority... they were also interested in making a contribution to global society," says Hideo Watanabe, Mitsubishi Chemicals' managing director for corporate planning. When pressed, he finds it hard to define what that means. But he admits that basic trust - held by a series of management studies to be the vital feature of a successful joint venture - has much to do with it.

Mitsubishi thus accepted JM's nomination of Katoh as chairman, effectively chief executive, of the new venture, Ryoka Matthey.

Simon Slatery, the new joint venture's finance director, the only foreigner among the 37 staff, adds: "Katoh was able to convince the other side that we are not an ugly *gaijin* [western] company about to come in and sack all the workers."

Even so, negotiations took two years. An especially tough point was which side would take control. Mitsubishi, maintains Watanabe, was happy to hand effective management control to JM, as a gesture to its expertise in titanium. Ownership required "serious discussions," he says. In the end, they agreed on a 50-50 split, to be reassessed five years after start-up, in 1998.

After the painstaking initial negotiations, Ryoka Matthey has harmoniously outperformed. In its first year to last June, it produced a ¥243m operating profit - 22 per cent above plan - on ¥1.9bn sales. What happens next, as in any joint venture, is unclear. But most important, both sides know it.

William Dawkins

ability to determine the quality of the joint venture management process. It also creates active personal links within the parent company which enable its senior management to learn from the experience of operating in a relatively unfamiliar and difficult environment.

● Focus control on areas that are both key for the business and where foreign expertise and experience are paramount.

● Above all, use the rights and powers of ownership to manage relationships. It is essential to approach these in a non-confrontational manner. In China this is a condition for accepting the contribution and authority of foreign management. Sending high-profile personnel to China, moreover, is interpreted as a positive gesture.

John Childs

The author is a professor at the Judge Institute of Management Studies, Cambridge. Further information on CIBAM from Trumpington Street, Cambridge CB2 1AG, UK. Tel (0)1223 333 9616. Fax (0)1223 333 9701.

Exercising strong direction

prevent technology leakage, the compromising of product quality and threats to brand integrity.

● Many larger international companies with several China joint ventures need to co-ordinate their efforts to secure potential economies of scale and shared facilities.

● Most Chinese joint venture partners are state enterprises, subject to the guidance of government authorities which can be resistant to new practices and systems. This is particularly the case in the personnel area, when an attempt is made to introduce modern practices such as performance-related incentives and competitive pay levels, and in marketing. Foreign direction may be necessary to overcome archaic but (to the Chinese) lucrative distribution arrangements.

The study identifies four significant levers of control. Foreign majority equity share gives control over key policy decisions, including a joint venture's

strategic priorities, re-investment policy and profit distribution. It also bolsters a parent company's influence over key managerial appointments in a joint venture, namely its general manager and the heads of significant functions.

The nomination of the general manager and the heads of certain functions increases a foreign parent's control over a wide range of joint venture decisions. These appointments are by no means wholly determined by equity share, and can therefore be negotiated separately. The right to appoint to given management posts can be specified in the joint venture contract. Having a foreign general manager heading up finance enhances foreign influence in the large majority of joint ventures. In the electronics and fast-moving consumer goods sectors, technology and marketing are respectively key competences.

Legal contracts are intended primarily to provide security for for-

eign technology, to guard against leakage, to guarantee standards and to secure an income stream from royalties. They are also used to protect brands. Providing resources under contract can therefore assist foreign control over key parameters, though the enforcement of contracts remains a problem in China.

Non-contract support is provided without any contract or fee, and includes product know-how, production technology, marketing assistance, management systems and training. The provision of non-contract support by China joint venture parent companies on an on-going basis adds appreciably to the influence they possess in many areas of joint venture operation management, such as purchasing, production, quality and sales/distribution. Non-contract support directly enhances foreign influence in the core joint venture management process and is an important lever for control.

The control leverage of non-contract support is enhanced by the traditions of Chinese society, which favour trust-based and long-term business relationships. The significance of non-contract inputs derives, at least in part, from the way they demonstrate the foreign investors' commitment to this kind of continuing relationship (*guanxi*). The CIBAM study suggests companies seeking to enhance control and direction in the management of their China ventures should:

● Acquire a majority equity share, and preferably a substantial majority such as 75 per cent.

● Rely less on the legal rights embodied in equity and contracts than they would in a western context. Legal contracts tend to have a negative connotation in China.

● Involve foreign staff both in heading key functions and in the provision of continuing non-contract support. This may be costly but it significantly increases the

Thin skins retreat from the City's fire

It is not hard to see why Richard Branson, Alan Sugar, Andrew Lloyd Webber and now Anita Roddick have all got fed up with the stock market. These entrepreneurs each seem to have reached a point where the very sight of a teenage scribbler or besuited fund manager has become abhorrent to them. They have decided that they have neither the time nor the energy to deal with their demands and constraints; they have felt badly treated, misunderstood and have wanted out.

Yet I wonder if there might be another element at work. Roddick and Co are the Stephen Frys of the City; they have discovered that the flip side of fame is an undue amount of criticism, and they have experienced how heavily that can be. All these four entrepreneurs are thin skinned, and each has a tendency to go off the deep end at the slightest criticism, let alone the full-frontal attacks that each of them has suffered.

There is a lesson here for compa-

nies seeking a listing. Like lambs to the slaughter they go knocking to the market in the happy knowledge that a quote will raise their company's profile. Yet publicity has its disadvantages, too. It is fine when the business is going well, but at the slightest sign of any difficulties the City will make mincemeat of them. And if they are not prepared for that they should think again.

On the subject of Stephen Fry, or acting in general, management seems to be turning to the theatre to cast more light on its own dingy discipline. For some time managers have relied on sportsmen for help (or rather sportsmen have relied on managers to get their cheque books out in return for a session with their heroes). But now the focus is shifting to theatre. I have just received some hair-raisingly pretentious publicity material from Harbridge House, the training arm of Coopers and Lybrand, which bris-



LUCY KELLAWAY

les with references to Simon Calow's book, *Being an Actor*. "There are two themes of drama which we consider to be highly relevant: rehearsal and role play," says the consultancy. It goes on to complain that managers today do not rehearse enough, as they are frightened of looking silly in front of their colleagues. The idea is that management development programmes fill the gap by offering what the consultancy calls "rehearsals for life".

Possibly doing a bit of role play with an out-of-work actor will help you prepare for that difficult meeting with a client. However, what

interests me is why managers are so unconfident as to be endlessly searching for analogies and lessons from other disciplines. I fully expect the next fad to be gardening. With all that talk of planting and growing, I can just see it.

My number one rule is never to do business with friends. Do not sell your car to a friend. Do not let your friend's house. Do not let your solicitor friend act for you. Do not let your carpenter acquaintance build your kitchen units. From personal experience I can tell you that

mixing business and pleasure in this way is a disaster. When things start to go wrong, you have a choice: accept a lousy deal in the interests of friendship, or insist on redress at the risk of losing a friend.

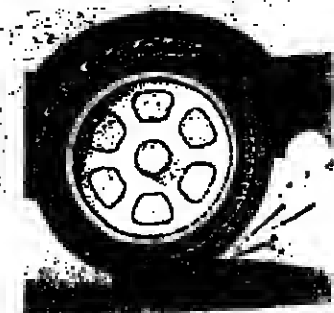
Thus I was surprised to see the latest survey from BT which sets out to prove that friendship is fundamental to business. Apparently, three quarters of managers have either done work or accepted work from a friend at least six times in the last year.

Showing genuine imagination BT has used this data to market a new phone service that gives companies cheap rates on their 10 most frequently dialed numbers. The survey tells us that increasingly managers like to build up close friendships over the phone - rather than over lunch - and that they enjoy nothing better than phoning each other for a cosy chat. In the unlikely event that this is true it offers a perfect solution to the problem of overwork and long hours that all managers are labouring under. If they spent

less time gassing on the phone, they would have more time to get the job done and go home on time.

I heard on the radio the other day that research has been done into the words that sell products. These turn out to be: sex, free, new and chocolate.

Gamini Consulting has taken the lesson to heart in its latest magazine with an article called *Corporate Sex Change*. Needless to say, I went straight for it, ignoring other articles on Efficient Consumer Response and the Virtual Corporation. Imagine how disappointed I was to find myself wading through a discussion of activity-based costing and business process re-engineering. However, I read to the end of the article and was eventually rewarded by a most pleasing - and plausible - conclusion: that if most companies were run by women there would have been no need to invent ABC or BPR.



FAST TRACK

Colleagues Group

A UK advertising company without an advertising type in sight, no ambition to collect creative awards, no minimalist London premises: the formula sounds unpromising, but Colleagues Group makes a virtue of these attributes, and even boasts a statistician and engineer at its helm.

The company's particular advertising niche is anything connected to direct communication with customers. For example, it handles the bulk of mailings to policy holders for Sun Life, the insurance company, processes answers to advertisements for Reader's Digest and Consumers' Association, and looks after advertising leaflets placed in telephone books. Work for mail order and holiday companies, as well as charities that use direct marketing, make up much of the rest of its activities.

Last year Colleagues placed 700m inserts in publications and produced and despatched over 50m items of direct mail. The group even has its own database of nearly 14m names.

The company would take offence at the junk mail tag, for it has invested heavily in the most sophisticated technology to minimise the kind of errors that irritate consumers most - getting names wrong, botching householding with numerous versions of the same offer, and, worst of all, addressing cheery personalised communications to people who have died.

Colleagues was founded in 1987 and valued when it floated earlier this year at £26m. Just over half of the company is owned by staff and directors. Turnover has climbed from about £6m in 1990 to over £36m last year, with pre-tax profits for the first half of this year standing at £1.6m. A recent acquisition has pushed staff numbers up to about 100.

The group is now one of the largest operators in a sector which shows significant promise. Leaps in database technology have come at the same time as finance directors demand greater accountability from advertising spending - and one of direct marketing's virtues is that it lends itself more easily to measurement than just about any other form of advertising.

This is where James Robson, Colleagues founder and chairman, comes in. A statistician and engineer, who started his working life with the shoe company C&J Clark and progressed to becoming a director of Damart, the mail order thermal underwear people, Robson loves to measure, evaluate and hone systems to extract the last ounce of efficiency and economy.

Clients have to shape up, too. "We need to work with people who are very decisive, who know what they want and what we can give them," he says. "Every client receives their instructions each day. Computerised lists of tasks act as a reminder of what needs to be done if deadlines for a mailing are to be met. At Colleagues' offices in Bath, every employee gets a corresponding daily schedule of tasks to be accomplished."

It is enough to make a creative advertising genius weep. Robson is unabashed: "We don't go out to win creative prizes. What our clients want is a very solid approach."

Diane Summers



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MONDIAL ASSISTANCE

مكتبة العصر

BUSINESS EDUCATION

Della Bradshaw asks whether the financial framework encourages managers to study for an MBA

Pushing through the crowds

The heady days of the 1980s, when brash young men and women could command vast salary premiums for completing a master of business administration (MBA) course, are now over. Nevertheless, it is still worth your while to study for an MBA.

"It's not the old glory days," reflects Roger McCormick, director general of the Association of MBAs (AMBA), which publishes its review of MBA salaries and careers this week. "I think the significant thing from the latest survey is the sense that long-term professionalism has come to the fore rather than short-term gain."

According to the survey, those completing their MBAs in 1994 reported an average increase in salary of 28 per cent. Impressive though this sounds, it is marginally higher than the increase of nearly 27 per cent that MBAs reported between 1990 and 1995.

The latest survey shows a sustained increase in salary with experience, with the highest salaries going to those between 51 and 55 years of age. (The median salary for employees with an MBA is £29,000.)

At nearly half the respondents, 1,996 graduates res-

ident in the UK from the leading business schools in the UK, continental Europe and the US had board level or senior management positions.

Recessionary times have clearly altered the profile of the MBA student in other ways. Rather than someone who was prepared to throw caution, and a good job, to the wind to study for a full-time degree, more students are studying part-time. "It's seen as much more of a gamble than it was five, six or 10 years ago," says Malcolm Weaver, senior consultant at Hay Management Consultants, which conducted the AMBA survey.

Until the late 1980s, more than half those studying for MBAs were full-time students. Of those graduating in 1995, 39 per cent studied part-time and 41 per cent used distance learning.

From the point of view of the employer, which often contributes to tuition fees, the investment appears very worthwhile. Sixty-five per cent of graduates described their courses as extremely relevant or very relevant to their jobs.

There is more good news for employers. These days students who graduate with MBAs are more likely to stay



ROGER BERKE

with the company then head for pastures new in search of higher status and more cash. Sixty-one per cent of those employed while studying for an MBA remained with their existing employer for at least a year after graduating, compared with only 56 per cent from the 1992 survey.

However, for those who do

change jobs the trend is well established: away from manufacturing and construction and towards finance and consulting - only 5 per cent of the respondents worked for consultants before their courses, while 16 per cent did so afterwards, with management consultants ever anxious to snap up all the best graduates.

The cost of studying for an MBA course can be off-putting - an average £6,000 to £8,000. But while management students in the rest of Europe, North America and Japan can offset the costs of their course against tax, the British student is unlikely to get such a perk.

The problem is particularly acute in the small to medium-sized business. Anyone who is self-employed and wants to go on a management training course can only claim back the tax if they can persuade the Inland Revenue that the course updates old skills. If new knowledge or skills are acquired - hopefully the case for those studying for an MBA - then tax must be paid, some £2,000 for those paying tax at the standard rate.

McCormick describes the situation as "absolutely wrong". "Debating this sort of theology is absolutely deplorable. It looks through the wrong end of the telescope. Everybody is thinking about tomorrow's skills, not today's."

McCormick is particularly vociferous about the tax issue because he believes the legislation goes against the government's policies on

supporting small business. Also it is financially short-term, he argues.

He says that MBA graduates accrue higher wages and higher profits for their companies. In the long run this would mean more taxes for the Inland Revenue.

For MBA students who are employed within a company the situation is equally confusing. If the company pays for the course then it can claim the cost against tax. If the individual pays then he or she can only offset the tax if it has the status of a national vocational qualification or in certain cases, for full-time external training courses which last for at least four consecutive weeks. Most MBA students fall through the net.

McCormick believes that the introduction of tax breaks would encourage more managers to study for MBAs. "It's been my experience that managers place exaggerated emphasis on tax breaks."

More important, he believes, is the signal the government would send by giving the tax break. "It would be an important indicator over and above the money."

NEWS FROM CAMPUS

Quantity and quality move hand in hand

Undergraduate business courses are increasing in both quality and quantity, according to a survey among the deans and programme administrators of 31 US undergraduate courses.

Nearly 70 per cent of respondents reported that the number of applicants was increasing, with a 26 per cent rise in the figures since 1992. Students gaining places in the schools also had better academic qualifications than in previous years.

The survey was conducted by the Kenan-Flagler Business School at the University of North Carolina. Kenan-Flagler: US, 919 962 9062.

Proficient managers earn a diploma

A diploma in general management has been developed by the Ashridge Management College in the UK to recognise the range of management skills attained by managers on its executive development programmes.

The diploma, which is validated by the City University, London, is for managers with at least five

years' experience and can be taken over one to three years. The diploma starts with a two-day workshop at Ashridge followed by accredited programmes and assignments. Assessments are also included.

Ashridge: UK, 010142 343491.

Cash fillip for executive centre

The Darden graduate school of Business Administration at the University of Virginia has just received \$10m (£6.3m) to establish an executive education centre - the largest cash gift in the university's history. The money has been given by Thomas A. Saunders III, a former Darden student. Darden: US, 804 924 7481.

Forget Pennsylvania, welcome Paris

The Wharton School of the University of Pennsylvania has appointed François Balsan as acting director of the school's European office, based in Paris. A former undergraduate at Wharton, Balsan will handle alumni relations, fund-raising and executive education. Wharton: France, 1 4747 6335.

CONFERENCES & EXHIBITIONS

EUROLEASE '96: The European Dimension

CONFERENCE: London 4-6, Frankfurt 7-8, December 1995

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- Meet key members from the European leasing associations
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- Other speakers include EBRD, KPMG, White & Case, Consensus SA, Secar.

To find out more, contact All Haldy on Tel: +44171 924 2980 or Fax: +44171 924 2991. Eurolease '96 is organised by MEC Conferences in conjunction with Ewitt Largo International

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NOVEMBER 29

IT Innovation in Financial Services Marketing

The explosion in the direct marketing of financial services has focused attention on the value of technology in developing and maintaining a market share. Through practical case studies this conference addresses the issues which companies must consider in selecting and using technology for marketing.

Contact: ELAN CONFERENCES
Tel: 01225 330312 Fax: 01225 330305

LONDON

NOVEMBER 7-9

TCS & D95 - The Temperature Controlled Storage & Distribution Exhibition and Conference

For further information and free admission tickets contact Nicky Molloy, F&I International Publications Ltd. Tel: 01737 769611 Fax: 01737 761853

G-MEX, MANCHESTER

NOVEMBER 11-12

The National Classic Motor Show NEC Birmingham

Join us at the "Fleetline Classic Car Show" where the car clubs take centre stage. Massive indoor exhibition - 100 Car Clubs - Action Robots - Many Special Features - Classic Cars Magazine Club Awards and much more.

Tickets Hotline No: 0121 767 4767
Enquiries: Mike Kensington - Centre Exhibitions
Tel: 0121 767 3536 Fax: 0121 767 3535

BIRMINGHAM

NOVEMBER 13

DTI Conference

Contribution of Aerospace Technology to the Economy. Royal Aeronautical Society, London W1. Two major DTI sponsored studies will be discussed together with sessions on North Sea Applications and Automotive Applications. For programme contact: Conference Office
Tel: 01845 0171 499 3515
Fax: 0171 499 1438

LONDON

NOVEMBER 13-14

Global Emerging Markets Investment Management Conference & Companies Forum

This second annual international conference covers the latest emerging equity and debt markets. The conference will include specialist regional portfolio investment workshops and 16 company presentations given by senior management.

Contact: Arlette Stevens, Dow Jones Telecom
Tel: +44 (0) 171 832 9737
Fax: +44 (0) 171 353 2791

LONDON

NOVEMBER 14-16

Public Sector Purchasing Conference and Exhibition

The Rt. Honourable Roger Freeman MP, Chancellor of the Duchy of Lancaster, will be opening PSP95 with a keynote address, at 10.45am on the 14 November. The exhibition will feature a fully comprehensive range of good and services for the procurement professional. Entrance is FREE.

Tel: 0171 382 9101

OLYMPIA 2, LONDON

NOVEMBER 14-16

PPMA Show

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For tickets phone Melinda Soles:
Tel: 0181 681 6226 Fax: 0181 681 1641

Wembley Exhibition Centre, LONDON

NOVEMBER 14-17

Bonds, Bond-Futures & Bond Derivatives

This intensive 4-day workshop examines the full range of bond and bond-related subjects from both the issuer's and the investor's perspective. Case studies, Practical Exercises. Limited delegate numbers.

Contact: BFI Financial Training
Tel: 44171 637 4380 Fax: 44 171 636 2330

LONDON

NOVEMBER 15-20

International Capital Markets

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NOVEMBER 17

Annual Reports

This Investor Relations Seminar covers the latest trends and approaches to producing your Annual Report. Current ASB standards, Greenbury and Cadbury requirements, interest and beyond. Speakers: Clive Hoad, Reuters, Blue Circle Industries and design house.

Contact: Rose Associates
Tel: 0171 629 6009 Fax: 0171 629 5669

LONDON

NOVEMBER 17-19

ACI Intro and Diploma course

Weekend (Fri Sat Sun) residential course for candidates for December's ACI examinations. Highly participative course covering all syllabus topics and featuring WINFOREX a new PC based study aid designed specifically for the ACI examinations. GBP 775.00 + VAT, incl. 2 nights accommodation, breakfast, and documentation. Croydon Park Hotel.

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Tel: UK 44 (0) 1959 565820
Fax: UK (0) 1959 565821

CROYDON

NOVEMBER 20-21

Complaint Management

Featuring Ron Gendron, former manager of customer services at MAS, this event will explore how organisations can improve their flexibility and responsiveness at the customer interface through empowering the workforce and equipping them with skills to deal with and remedy complaints.

For details contact Sarah Williams:
JBC 0171 637 4383

LONDON

NOVEMBER 20 & 21

Central Banking

In this intensive one and a half day programme, capital markets, the international financial system, derivatives and gold are discussed by Gianni Chaves, Leonard Gleick, Tom Mait, Douglas Harris, Mike Walsworth and others.

Sponsors: World Gold Council, Barclays Bank - Global Precious Metals.

Contact: CityForum Ltd
Tel: 01225 466744 Fax: 01225 462903

LONDON

NOVEMBER 21

IPPR/One Day International Conference - Hard Choices in Healthcare

Speakers include: Harriet Harman MP, Prof. David Baxter, Philip Hunt, Dr Elias Moschoulas, Prof. Michael McBride, Hugh Bentley MP. With contributions from EU member states.

Details & Booking: 0171 222 1280
Fax: 0171 222 1278

LONDON

NOVEMBER 21-22

Evaluating and Managing the IT Investment

Why spend on information technology? This seminar is intended for both business and IT managers wanting to justify expenditure on new information technology. It will outline the business benefits, costs and risks associated with IT investment.

Contact: UNICOM Seminars
01895 256 484 Fax: 01895 813 095

LONDON

NOVEMBER 21-22

Performance Measures

This conference will take the delegates through a structured learning programme showing how to implement and operate performance measures across business processes critical to the success of the company. Includes case studies from a broad range of companies.

For details contact Sarah Williams
JBC 0171 637 4383

LONDON

NOVEMBER 21-23

Getting more from your Railway

Six half-day seminars in conjunction with RAILTEX 95. Topics include: traffic improvement; economic efficiency through cost-cutting and planning; cost-cutting initiatives imposed by the existing infrastructure; new systems for improving track conditions; combining productivity with safety. Enquiries: ICE Conference Office. Tel: 0171 839 9805

WIMBORLEY CONFERENCE & EXHIBITION CENTRE

NOVEMBER 22-23

Installing and Operating Programme Management

Programme Management is increasingly used to direct, control and implement portfolios of business change. The material will explain what is involved and the benefits that accrue from its use. The seminar will explain how to design and implement a Programme or Project Support Office.

Contact: UNICOM Seminars
01895 256 484 Fax: 01895 813 095

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NOVEMBER 22-24

Securities Settlements and Global Custody

Covers the most important aspects of securities settlements for debt and equity securities in international and UK markets and a comprehensive understanding of the global custody market.

• Introduction to Securities • Corporate Actions • The Investment Cycle • The pre settlement process • Settlement and after • The role of the Securities Department • Bond settlements • Equities settlements • Risk • Industry initiatives • Operational performance • Global custody.

Contact: BPF Bank Training
Jonathan Rogers Tel: 0171 628 4444
Fax: 0171 628 7818

CENTRAL LONDON

NOVEMBER 22-24

Flexible Working

This conference will give a practical and strategic view of flexible working techniques in Europe. It will reveal results of new ground breaking studies as well as give concrete case studies from large and small organisations.

For details contact Sarah Williams
JBC 0171 637 4383

LONDON

NOVEMBER 23

FT Financial Reporting 1995

Significant developments in the field of financial reporting over the past year make this one-day conference - the fifth in an annual series - a must for accountants in all practice and industry.

Enquiries: Financial Times
Tel: 0171 814 9770 Fax: 0171 875 9759

LONDON

NOVEMBER 23

Strategic Positioning of Personnel/HR Management

Most other leading practitioners at the 1995 Benchmarking Forum. Includes leading speakers and round-table discussion groups on topics of immediate importance to HR. A preview of the latest 1995 HR Benchmarking Report and Statistics will be presented. £195 incl. VAT per person.

Contact: MCP-CER Management Consultants Tel: 0171 242 3665
Fax: 0171 242 3885

LONDON

NOVEMBER 27

GMB/Young Members National One Day Conference

"The National Minimum Wage - How It Should Apply to Young Workers"

Speakers: John Edwards, General Secretary GMB, Ian McCartney MP, Shadow

Spokesperson on Employment. Held at 8425 Congress House, LONDON. Complimentary tickets available - please call 0181 947 3131.

LONDON

NOVEMBER 27-28

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NOVEMBER 27-29

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LONDON

NOVEMBER 27-29

TEAMS 95

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For further contact: Sarah Williams
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NOVEMBER 30 - DECEMBER 1

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For managers wishing to increase their client base and profit using a variety of marketing techniques in the financial industry.

• Understanding your clients' needs • Marketing targeted at clients needs • Remembering your market • Key elements of marketing • Selecting marketing techniques • Developing your marketing plan.

Contact: BPF Bank Training
Hilary Jackson Tel: 0171 628 4444
Fax: 0171 628 7818

CENTRAL LONDON

DECEMBER 1

Employee Fraud Conference

Stephen Pollard (Nick Leeson's solicitor) and the real life "Cracker". These are just two of the speakers that will help you limit your exposure to employee fraud. This conference is being organised by Security Gatekeepers, Control Risks Group and the FT Fraud Report. Ring or fax the number below to ask for an information pack.

Contact: Karen Lee
Tel: 0181 277 5241 Fax: 0181 277 5242

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Is a two day comprehensive programme providing a practical insight into the Internet and what it can offer business. Allied to Managers, Professionals and Decision Makers in the service industries, manufacturing and commerce. All major topics and issues will be presented and discussed by the Internet Industry's top experts.

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http://www.bci.co.uk/alevel/

LONDON

DECEMBER 4 & 5

GO INTERNET

BUSINESS TRAVEL

Boost for London

London hotels are enjoying such high rates of occupancy that the London Tourist Board says 10,000 more rooms could be needed by 2000, Soheerzade Daneshkhu writes.

It says London has a shortage of affordable hotels in less expensive areas than the west end. Last week consultants Parnell Kerr Forster and Knight Frank & Rutley said that demand for accommodation could sustain 2,000 new beds in Docklands by 2010.

Malaria vaccine tests

A new approach to malaria vaccination is in the early stages of testing, *Clive Cookson* writes.

According to *New Scientist* magazine, the vaccine, developed at the US National Institutes of Health, does not offer immediate protection, but it promises to stop the disease spreading.

It is designed to stop the malaria parasite reproducing, although several years of testing will be required. Other approaches to vaccination are in trials but none has given consistently encouraging results. Travellers should keep taking their malaria pills.

Flights to Colombo

British Airways has restarted flights between Gatwick

London and Colombo after seven years. It says traffic to Sri Lanka is growing, despite the continuing war between government troops and Tamil Tiger separatists.

● In a code-share deal between Alitalia and Canadian Airlines, the Italian carrier will operate flights between Rome and Toronto in spring and summer, while the Canadian carrier will operate them in winter. ● Scandinavian Airlines

System has started three flights a week between Copenhagen and Poznan, Poland, and plans further flights between Scandinavia and Poland.

● Silkair, a unit of Singapore Airlines, will fly to Ujung Pandang in Indonesia three times a week, and to Vientiane in Laos twice a week. Also, a twice-weekly charter to Christmas Island will start from November 17.

● Lufthansa has started code-sharing flights with Thai Airways between Germany and Thailand. Each will operate seven of 14 flights a week to Bangkok from Frankfurt, plus two weekly flights to Bangkok from Munich.

Iberia flights hit

Iberia, the Spanish airline, is expected to be hit by further strikes today and on

November 9, 10, 13 and 14. It lost 300 flights last week in a protest by pilots at what they see as the management's failure to carry out restructuring, seen as vital if the European Commission is to approve a cash injection of \$1.1bn (£733m).

Most of the flights lost last week were on international and domestic routes that are served by other airlines. The airline has seen heavy losses since 1990.

French strike called

A union representing pilots and mechanics at French airline Air Inter called at the weekend for a two-day strike in sympathy with

stewards protesting at a planned restructuring by state-owned parent Air France. The union said it was calling Air Inter members to strike on November 10 and 11. The stewards' union had already called for a wider stoppage at both Air France and Air Inter for November 9-11.

The pilots' union denounced Air France's plans for restructuring Air Inter, which operates mostly on domestic routes in France, as unrealistic.

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
Tokyo	21-25	22-25	17-17	17-17	21-24
Hong Kong	27-27	26-26	27-27	27-27	28-28
London	10-10	12-12	12-12	12-12	12-12
Frankfurt	6-6	6-6	7-7	6-6	5-5
New York	14-14	17-17	13-13	8-8	10-10
L. Angeles	21-21	23-23	23-23	22-22	20-20
Silao	11-11	13-13	11-11	10-10	12-12
Paris	10-10	10-10	10-10	9-9	11-11
Zurich	5-5	7-7	5-5	5-5	5-5

Information supplied by Meteo Centre of the Netherlands
Maximum temperatures in Celsius



Petersen: 'I'm not as obsessed as most people might think'

Randy Petersen is king of the frequent flyers. He travels on more than 200 days a year and has collected 5m air miles. When he is not collecting miles, he runs a frequent flyer publishing and consulting empire from his ranch outside Colorado Springs.

Randy publishes a magazine called *Inside Flyer*. It provides advice for frequent travellers about which airlines offer the most air miles if you travel with them, and what free holidays and other prizes you can win.

Members of the Aer Lingus Travel Award Bonus programme, for example, can learn how to drive a racing car or have a free flying lesson (not, one hopes, on a scheduled flight).

Randy also publishes the *Official Frequent Flyer Guidebook*, an annual survey of air mile programmes. There are 80 frequent-flyer programmes available worldwide. If you prefer not to arrange the free trips you have won yourself, or need to hire a car when you reach your destination, Randy's organisation will do it for you, for an annual fee of £30.

Randy is on the Internet, where you can see full versions of *Inside Flyer*, along with cartoons and other frequent traveller news. If you are worried you might lose all your lovingly collected miles if your airline goes bust, Randy can offer you Award Guard, a scheme under which you can insure your points against just such a catastrophe.

His company, Frequent Flyer Services, has 300,000 customers in 134 countries. "I love what I do," says Randy. "The compa-

ny's nine years old now, and I still work six or seven days a week."

Before he got into the frequent flyer business, Randy worked in men's retailing. He travelled constantly, looking at clothes, talking to designers and collecting frequent flyer miles. He managed to earn enough miles for a free trip to Europe and then a holiday in Hawaii.

"I thought: this idea of sitting on a beach in Hawaii is pretty rewarding," he says.

Colleagues at work began asking him which airlines they should use if they wanted to collect more miles. When complete strangers started asking for advice, Randy decided to give up retailing and become a professional frequent flyer consultant.

He still switches airlines if he can get more points. While preparing for a recent visit to his London office, he noticed that American Airlines was offering a 25,000-mile bonus. The cost of the flight was no lower than the one he had already booked on another carrier, but he changed to American immediately.

Many people make the mistake of thinking you can collect frequent flyer miles only when you fly. In fact, there are dozens of non-travel companies that will give you frequent flyer points if you use their services.

Port of Call/Michael Skapinker

When to go that extra mile

From the moment you wake up until the time you go to sleep, there are few activities which do not lend themselves to collecting miles and points towards that free beach holiday and those extra nights in a luxury hotel.

Examine every aspect of your life, Randy says, and see whether you cannot win more miles by doing things a little differently.

For example, are you happy with your dentist? Does he or she accept a credit or

charge card which is linked to your favourite airline's frequent flyer programme? When you pay for your root treatment, are you at the same time winning air miles? If not, change dentists.

"When you think about it, my high-mileage life isn't really a whole lot different than yours, except I've made earning miles a priority," Randy told readers of a 22-page advertising supplement he placed in *Fortune* magazine.

This is a typical Randy Petersen day: ● Dental check-up. Use credit card to pay. Win 73 air miles. ● Pick up car from garage. Pay for routine maintenance with card. 242 miles.

● Fill up with petrol. Pay with card. 18 miles.

● While driving, check in with office using cellular telephone. Earn five miles per dollar spent. When the telephone bill arrives, pay with credit card, earn even more miles.

● Reach the office. Make sure every telephone call made and every fax sent earns miles.

● Send gift to family member. Do not drive to shopping mall. Instead, send flowers by telephoning company which awards between 300 and 1,000 miles per purchase.

● Hold staff meeting off-site. Check first which hotels offer miles if you use their meeting rooms.

● Pick up dry-cleaning on the way home. Pay with card. 21 miles.

● Dine out. There are more than 2,400 restaurants in the US that award miles for every dollar spent.

There are dozens of other ways to earn miles. Some airlines award up to 1,000 miles to passengers who fill in and return market research questionnaires. Others will give you 5,000 miles if you persuade a friend to join a frequent flyer programme. You can earn miles by sending off for foreign language courses.

"Hang out at the airport," advises Randy. At London's Gatwick airport you can win miles just by shopping or eating at a restaurant.

Isn't this all a bit obsessive? "I'm not as obsessed as most people might think," says Randy. "I do meet people who are truly obsessed with miles, people who go to jail because they are so obsessed with miles."

Randy spends a lot of time in court testifying in air miles cases. He appears as an expert witness, sometimes for the defence, in frequent flyer fraud trials.

People do all sorts of things to win miles illegally. For example, they check in, so that they can add the miles to their collection, but they fail to board the flights. Then they go home and claim a refund on the unused ticket.

He has appeared as a witness in divorce cases, helping courts settle disputes between spouses arguing over who should get custody of the air miles. Randy is particularly worried about the large number of people who do not mention their air miles in their wills, resulting in ugly arguments among the surviving dependents.

What motivates collectors of air miles? What distinguishes them from the travellers who never worry about frequent

flyer programmes? Is there an air mile-collecting personality type? "Actually, no," says Randy. "I used to think it was the individual who liked the challenge of getting things for free. Now I think it's all kinds of people."

One of the things that motivates collectors is greed, Randy admits. But others use their frequent flyer points to get better treatment when they fly. The more points you have, the more likely you are to be upgraded or admitted to the airport lounge.

British Airways has upset some of its customers by restricting air miles to those travelling on full-fare tickets. Randy thinks other airlines will follow. "BA's on the leading edge," he says. He believes BA's move will encourage loyalty among the airline's most valuable customers.

"They think: 'I give a lot of money to that airline. I should get more respect than the person who travels once a year on a discounted ticket.'"

Given the number of miles that Randy has accumulated, he must take a lot of free trips. He could if he wanted to, he says. The miles he has collected translate into 250 free flights within the US. But this is the funny thing about Randy: he does not use his air miles to get anything for free.

If any of his miles are about to expire, he donates them to charities so that they can raffle them off. Sometimes he gives them to his employees so that they can have a free holiday. Two members of his staff are about to go to Hawaii, using Randy's miles. "My hobby is collecting miles, not spending them," he says.

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Cyber sightings

● The Berkeley Round Table on the International Economy (<http://server.berkeley.edu/IRIE>) is one of the leading US research projects on global economic competition and the development of advanced technologies. An interesting site well worth bookmarking for details of ongoing research interests.

● London wine merchant Berry Bros & Rudd, established in 1888, has become the oldest company in the world to set up a presence on the Net (www.berry-bros.co.uk) and it's a model of online niche marketing. A very nice home page with a coloured text format that is pleasant to read and a straightforward product index and order form. Prices can be converted automatically from sterling to US dollars and yen.

● The Embassy of Mexico in London has set up a dual-language site (www.demon.co.uk/mexuk) with a useful set of links to daily Mexican news sources and a range of international newspapers. Well laid-out and easy to use.

● Mortgage News (www.mortnews.co.uk) is a very nice service of Worthwhile Publications covering the UK house-buying market. It has news items indexed by subject or date order and covers all aspects of the mortgage industry.

● Innovations Online (www.innovations.co.uk) is a shopping service brought to you by the folks who produce those brochures that fall out of your Sunday paper full of interesting and fascinating stuff. It has merchandise ideas from London's Victoria & Albert and Science Museums.

● The Hong Kong Standard (www.hkstandard.com) is the crown colony's first English-language daily paper to go on the Net. With good content for those who know the region, it's perhaps a little graphically ambitious as the images are frustratingly slow to load.

● Cyber Business Journal (www.socq.com/TouchCBJ) is a useful online monthly magazine - with occasional weekly updates - covering aspects of electronic communication and commerce. Although the spelling is a bit liberal at times, it has a good range of contents, currently featuring articles on information disaster recovery, bandwidth availability and the United Nations' approach to a global economy.

● Allied Dunbar's real site (<http://AlliedDunbar.co.uk>) is a well-organised marketing vehicle for the company's life cover products, featuring an instant premium calculation using readers' details. Simple and straightforward.

● PlumbNet (www.plumbnet.com) is described as a "communications revolution for the plumbing industry" bringing together plumbers, architects and interior designers. If you're in that sector it's actually an excellent resource database and promises much. US only for now, though, so the rest of us will have to take pot luck from the cards in the newsagent's window.

● Classic motorcycle manufacturer Harley-Davidson has put up its Christmas catalogue of merchandise (www.hd-stamford.com/christmas.html), from where you can order attractive gifts like a customised spoon rack bearing the famous Harley logo. I kid you not.

Stephen McGookin (steve@mcgookin.demon.co.uk) (A recent system crash meant I lost a file of stored e-mails. If you have contacted me over the past couple of weeks and I haven't replied, please get in touch again.)

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Tim Jackson

Last week a start-up in London called Infotrade unveiled the most comprehensive electronic service for the private investor that I have seen. Strictly speaking, the service is not new. Prices from the London Stock Exchange have been available for more than a month from Electronic Share Information, a company based in Cambridge, and the same company has joined with Sharelink, a discount brokerage in Birmingham, to allow investors to buy and sell shares from their personal computers.

But Infotrade's package is more ambitious. It boasts a range of financial information - including analysts' estimates, directors' dealings and historic price and accounting data - never before available electronically to retail investors outside the US.

For a start-up, this was an impressive package. It included material from many of the big names in British financial information, including Etsel, the FT and Edinburgh Finan-

Gulf keeps broker from browser

cial Publishing. But Infotrade is no ordinary start-up. It is funded (and wholly owned) by Mitsubishi Electric of Tokyo, a member of one of Japan's most powerful *keiretsu* (industrial groupings). With characteristically Japanese patience, the firm expects to spend about £2m to £4m a year for the next three years before seeing a penny of profit.

The power of its backer helps explain why Infotrade has arranged for retail distribution of its access software through BT shops around the UK, and has persuaded the normally conservative phone company to send out 300,000 pieces of junk mail.

Infotrade has a testimonial from Britain's minister of science and technology, Ian Taylor. He describes the need for "real, practical applications which will help to drive Britain forward as the new pioneer of the information age", and cites Infotrade as "a shining example of the pioneering spirit... harnessing the power of the superhighway for the private investor".

How can Infotrade possibly fail? Yet I believe that it will - and that its failure will offer useful lessons to other companies following in its footsteps.

A good starting point is the minister's reference to the superhighway. In fact, Infotrade's route to its customers is via the old-fashioned phone network. To receive information or to place orders, customers have to make a long-distance call from their PCs direct into Infotrade's Birmingham office.

As a result of Infotrade's slightly odd pricing mechanism, many customers will make three calls - one to check the price, once to issue their order, and once to confirm its acceptance. Had the service been offered over the Internet, a single local call could have been sufficient.

Customers can use only Infotrade's own access software, not the World Wide Web browsers with which the PC users are already familiar. This irritates those who are

coming to see the web as the route to a wide range of products and services. It is a self-inflicted wound for Infotrade, which consequently denies itself access to a largely ready-made pool of several hundred thousand Internet users in the UK.

Peter Horne, Infotrade's chief executive, has counter arguments. He says that few investors have Internet access, and many are frightened by the complexity of it. Direct access also improves security and reduces delays.

These points are powerful. But Horne's difficulty is that Infotrade is currently only a delivery mechanism, competing with the post, the phone, the Internet and other more powerful private networks such as CompuServe. His hope is that by moving first and throwing money at marketing, Infotrade will gain a leading position - perhaps 12 per cent of the market - that will bring it such a large installed base that content providers and brokers will feel forced to join up.

This view is curiously similar to that of computer companies in the 1970s, which believed they could lock their customers into buying products by encouraging them to use software that could not run on competitors' machines. Discredited in the computer industry, this is an odd strategy to follow in the 1990s information business.

My prediction is that Infotrade will succeed initially in signing up retail customers, but will then find that its growth stalls as investors become more computer-literate and realise that a wider range of products is on offer via the Internet.

Content providers will be enthusiastic at first, but will later abandon Infotrade and sell their material directly via the Internet.

What, then, is the best way to use new technology to make money in the broking business? The obvious answer is disintermediation: by-passing the entire structure of brokers, market-makers and stock markets altogether. The beauty of the Inter-

net is that it allows millions of private individuals to make contact. So someone who wants to buy 500 BT shares can easily find someone who wants to sell the same number, and can deal at a transaction cost far below traditional retail broking commissions but still very profitable indeed for the firm that operates this electronic market.

ESI, the Cambridge company mentioned above, hopes to be that company. Matching buyers and sellers across the Internet is not terribly difficult. The difficulty is the chicken-and-egg problem: buyers will not come unless they see a thriving market, yet the market cannot thrive until buyers come.

The most likely outcome is that the businesses making the real money from electronic broking will be the very brokers that have the largest retail client bases today. Sharelink, whose 600,000 retail customers make it overwhelmingly the largest retail brokerage in Britain, offers dealing services through ESI as well as through Infotrade. That, rather than the other two companies, is the one to watch.

● Tim Jackson can be reached at Tim.Jackson@poboc.com

Rivals circle as shadow of black box deepens

Germany's digital TV race has begun, writes Judy Dempsey

Engineers and technicians at the Leo Kirch media group near Munich are busy preparing for the launch next year of Germany's first digital television network.

The Kirch group, owner of one of the country's largest film libraries, built up in the 1950s, signed a deal with Nokia, the Finnish electronic manufacturer, two months ago. Nokia will supply 1m D-boxes, or decoding boxes, the crucial piece of equipment which will give viewers access not only to scores of TV channels via cable and satellite but to a range of multimedia services.

"It is a very exciting venture," says Gottfried Zmeck, manager of the Kirch group. "We are confident we can launch digital television in Germany late next year. There seems to be little stopping us."

The satellites required to beam in a plethora of programmes and services to German homes are almost in place. Astra 1E has got the go-ahead for launch next spring, followed in the summer by Astra 1F. Zmeck believes that within three to four years Kirch will have about 4m viewers, provided, he adds hastily, "the price is right. We have to give the consumer value for money and we have to make sure that the D-box is easy to use."

The D-box will cost about DM1,000 (\$457) - expensive for Germans who are already saddled with a heavy tax burden as well as paying a monthly

DM28.50 TV licence fee for access to ARD and ZDF, the state broadcasting channels. Nevertheless, Kirch is determined to offer a choice of competitively priced packages as well as US-type pay-to-view.

"We want to wide an audience as possible. We are not just aiming to provide high quality entertainment and access to the major online services. We want to provide home tele-shopping, training programmes, video-on-demand, educational programmes and closed-user group facilities. The possibilities are immense," says Zmeck.

And the market is potentially huge. Officials at Deutsche Telekom, the state-owned telecommunications network, have estimated that the German market for business-related multimedia services alone will be worth DM15bn by 2000, while Germany by then would account for a quarter of the European Union's multimedia market.

Despite such optimistic forecasts, Kirch and other media experts are aware of the risks involved. "You don't make money quickly on this system," says Michael Thiele of the Hamburg-based Association for Digital Television, a think-tank specialising in multimedia services. Zmeck is just as cautious and reckons Kirch could break even on an operating basis within four or five years. "A return on investment could take longer," he says.

One shadow hangs over the ven-

ture. Hard on the heels of Kirch is MMBG, a consortium headed by Bertelsmann, Germany's biggest publishing and entertainment group, which is based in Gütersloh, a small town in the north of the country.

Last August, Bertelsmann, along with Deutsche Telekom, RTL, Germany's independent commercial television channel, ARD and ZDF and CIT of France, launched its own digital television-multimedia joint venture.

But unlike Kirch, MMBG has yet to establish a uniform decoder infrastructure. Even if it does, it could mean that Germany would have two separate digital television networks. "I am not so sure the market could carry both systems," says Thiele. "Obviously it would be better if MMBG and Kirch could reach some agreement on having one uniform D-box for German consumers, but that's competition for you."

Reaching agreement on a uniform D-box is not easy because Kirch and Bertelsmann are age-old rivals in the media, television and entertainment industries.

Kirch holds a 43 per cent stake in Sat-1, Germany's first independent television network, which was set up in 1985 and which has a 14.9 per cent market share. Bertelsmann has 38.3 per cent of RTL, the rival commercial channel set up in 1986, which has an 18 per cent market share.



Both channels are fighting to hold on to their market shares at a time when Pro 7, a latecomer to independent television, in which Kirch's son, Thomas, owns 49 per cent, is rapidly gaining ground, with 10 per cent of the market.

To complicate matters further, Bertelsmann and Kirch realise that the success of digital television will in large part depend on Premiere, Germany's only pay-TV channel.

After a shaky start, Premiere, founded in 1991, has nearly 1m viewers, the minimum required to break even. But the important point about the network is that it could act as a

kick-start for digital television since there is a ready-made captive paying audience. The problem is that Premiere's shareholders cannot agree which decoding box they want because they are rivals.

Kirch holds 25 per cent of Premiere while Bertelsmann has 37.5 per cent. Neither conglomerate is willing to agree on a uniform D-box. Helmut Thoma, head of RTL, says it is unclear what will happen.

"Of course, the set-up box is important. But even more crucial is who will get the licence for the conditional access system. The costs could be very high," he says.

For the Kirch group, it is a question of time - or rather who is leading the race to establish digital television. "We are positioning ourselves. We are ahead [of MMBG]," says Zmeck. "Surely that would be a deciding factor for Premiere. But its management will be the ones who will have to choose."

Premiere, for its part, said last week that it expected to make a decision by the end of this year. And since Kirch is leading the race for digital television, the chances are high that it will opt for Kirch, ensuring the further expansion of his media empire.

Blue teddy bear meets Dweeb and Jessica, a brightly coloured fish

Louise Kehoe sends a don't-wish-you-were-here post card from her holiday in cyberspace

"Click on the Internet and begin an exciting journey with other people through a virtual environment. Travel with other cyber surfers from around the world who, like you, can be seen as real-life avatars, or visual embodiments of people."

Like many a real world travel brochure, this promotion for cyber travel, through three-dimensional virtual reality sites on the Internet, sounded too good to be true. And it was.

Virtual cyber travel is today, unfortunately, much like the real thing. Expect long delays, lost luggage, technical problems and - if you do finally reach your intended destination - a resort that is still under construction.

This cyber reporter's first trip to "Planet 9", one of several destinations that can be reached from "Terminal Reality" (<http://www.zdnet.com/tdi/terminal/>), a virtual reality Internet "airport" that was opened last week by Ziff Davis, the US publishing group, was aborted by an "unknown http status code" message after more than half an hour of multimegabyte downloads.

Worlds Chat, a virtual reality social arena created by World Inc of San Francisco, proved to be a more reliable destination. Drawing upon the success of text-based "chat rooms" at online services such as America Online, where a group of users can exchange typed messages, Worlds Chat adds the opportunity to pick an "avatar" or digital actor to represent yourself, plus tools to navigate within a 3D space and socialise with other visitors. The experience, however, was akin to crashing a private costume party. Having taken on the persona of a blue teddy bear in Worlds Chat, this

cyber reporter encountered "Dweeb", a three-piece-suited type who seemed to know his way around, and "Jessica", a brightly coloured fish. Were these to be my cyber pals? Perhaps not. After brief pleasantries, we moved on. What does a teddy bear say to a fish?

This is the "bleeding edge" of Internet technology, and it is not for the faint of heart, or those with less than 64Kbytes of memory and a fast modem. Yet the prototype virtual reality "worlds" that have sprung up on the World Wide Web over the past few months provide a useful signpost to the future route of the information highway.

A year from now there will be many virtual worlds on the Internet

Eventually, broadband networks - either fast phone lines or television cable network hookups - will eliminate the data traffic jams that currently frustrate efforts to deliver three-dimensional images to personal computer users. Higher speed microprocessors and personal computers with more memory will also help.

When the infrastructure is in place, today's "flat" text and graphics World Wide Web sites will give way to 3D scenes inhabited by avatars, or digital actors, says Willy Chiu, IBM's director of multimedia technology.

A year from now there will be many virtual worlds on the Internet. Three-dimensional graphics and sound will be commonplace and electronic shopping in virtual stores will be starting to take off, he predicts. Some 30 or more com-

panies - ranging from tiny software startups to IBM and Microsoft - are racing to bring virtual reality to life on the Internet. Several are already offering prototype software free to all comers.

Much of the current interest in 3D WWW sites is being shown by video games developers. There are also, however, potential business applications.

In a demonstration of VRML technology, IBM will later this year create a virtual products gallery where visitors can seek answers from the company's marketing avatars. The computer company is also planning to construct virtual museums, art galleries and libraries where users can view or read rare collections. Visa, the international credit card organisation, is developing virtual bank branches to be linked to the Internet. And retailers are expected to follow with three-dimensional images of their stores.

The next step will be for individuals to create virtual worlds on the Internet. This will become feasible within the next few months, industry analysts believe. In these brave new virtual worlds, users might also be able to create their own avatars, each programmed to perform a task such as greeting visitors or looking for stock market information.

While the use of virtual reality on the Internet has so far been benign, the technology could create the potential for a new rash of cyber crime. Avatars might, for example, adopt offensive personalities or even be programmed to commit crimes. Another concern is that day to day social interaction might one day take place among digital surrogates, rather than between real people.

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SPORT / ARCHITECTURE

Swapping campus for court

Sam Smith began university as an undergraduate with a secret. While her contemporaries swapped stories about the sixth forms they had left behind, Sam kept quiet about her former life on the women's tennis tour.

The apartment in Florida, competing at the Barcelona Olympics, a bank account containing serious money - all seemed a long way from shared digs, late essays and baked-bean suppers.

"For the first couple of terms I told no one except a couple of people I was very close to. I had no intention of playing tennis again - except for fun. I just wanted to fit into student life," says Sam.

Her elfin features make her look younger than she is, and a passion for pubs and parties provided her with a perfectly normal identity at the university.

What makes this story more than simply another tale about a burned out young tennis star is that Smith, 23, was talking at the British national tennis championships at Telford where she was seeded 8th.

In the next room, Greg Rusedski, formerly of Canada, now the British No 1, was speaking about his extraordinary adoption by the British public. Along the hall, Jeremy Bates, whom Rusedski supplanted as No 1, was talking about retirement to the ever-hungry tabloids.

Smith, a history graduate (upper second), was back on tour. "It wasn't until as late as May this year that I even considered playing seriously again," she told me. "I was looking for jobs, not more tennis."

As Smith talked, Warren Jacques, the former head of British tennis and one of the world's top coaches, wandered past. "With your talent you can do anything in the world," he murmured amicably.

Certainly Smith is no ordinary athlete drilled since school to focus on tennis alone. During the summer she

SPORT



KEITH WHEATLEY

accepted an invitation to play an exhibition match in Beirut because she had written a dissertation on the subject of Lebanon's civil war and wanted to see the battlegrounds.

She left Bancroft's School in Essex in the summer of 1991 with two A-levels and a reputation as one of the best junior players in the UK.

Although stardom seemed to beckon, even then Smith felt ambivalent.

"People see you in terms of just one thing if you happen to do it exceptionally well. They won't accept your other ambitions."

Yet the chance to join the tour, via a place at Apey's tennis academy in Florida, was irresistible.

In short order she became the world's 103rd ranked player, and third in Britain.

But her goals were harsh. "I said that if I wasn't top 50 within two years, I'd quit."

Before that target was even in her sights, the young player started to become unhappy with her regime.

"Between my coach and my agent I just didn't seem to have any control over my life. I was making a lot of money for a 19-year-old, but I've no idea exactly how much. It was all done for me, and that's something I won't let happen again. I have my own mind and I got out of the game just to get my life back."

Socially and intellectually,



Sam Smith: no ordinary athlete drilled since school to focus on tennis alone

she found life on the tour dispiriting. She chooses her words carefully here, for these people are once again her everyday companions.

"You have an awful lot of time hanging around, which can be used much more constructively than most players bother to. There weren't that many people that I felt I had much to talk about with."

She applied to various universities late and on impulse, but says she got lucky with Bruce Coleman, head of history at Exeter and a keen squash player and all-round sportsman.

"He could see that I was academically sound and had something to offer, and bent the rules a little bit for me."

During her first year at university Smith stayed away from the tennis court - "I didn't want to blow my cover" - but kept fit with squash and swimming. Essays and tutori-

als were so much fun, plus sharing a house with seven other students, that she hardly gave the game a thought.

But the world student games in Buffalo in 1993 proved a turning point. "To be honest, my prime interest was the free trip to America," she concedes.

"But once I'd started competing again I realised that I'd been missing that part of my life quite badly. You do get accustomed to competition and adrenalin and can't just drop it."

This spring, the world student games came round again and, with finals on the horizon, Sam Smith realised that tennis meant more to her than the post-graduate course she was about to apply for.

In search of guidance she phoned Ann Jones, the head of women's tennis in Britain. With Jo Durrill retiring, the coach was pondering the lack of heavyweights in her string.

Smith's call made Jones's day. "She was always a good player, but there's much more motivation now," says Jones, adding that if Smith had a flaw it was in her movement around the court rather than a weakness in shots - a tendency to read the game with a little too much detachment.

"If you really want to hit the ball it's surprising what you can get to," says Jones.

On Saturday, Sam Smith was drenched 6-2 in the final at Telford by the top-seeded Clare Wood, the British No 1. But Smith was not daunted. Next weekend she plays in the British European Cup team in Stockholm: her first competition at international level since returning to the game. "It does feel strange," she says.

"Instead of getting up and going to lectures - or missing them - I'm hitting thousands of tennis balls every day. The odd thing is, I love it."

Viterbo hints at how to re-civilise the city

A fine medieval Italian town offers important lessons for urban renewal, writes Colin Amery

Italy and England have always nourished each other. After visiting Italy I always return feeling I have enjoyed a feast, not a gluttonous way hut enriched by the experience.

In architecture Italy has more to give than almost any country, though when it comes to poetry, as Dryden said, the inspiration has to be Greece, Italy and England, in that order.

There is a wonderful example of Anglo-Italian partnership and inspiration to be seen in London at the moment, and the two institutions that are behind it are both highly typical of their countries.

The Accademia Italiana has, in a very short while, become a London landmark, because of its lively and intelligent exhibition programme and the quality of its chairman, Doctor Rosa Maria Lettis.

At present it is playing host to a small exhibition that represents the work of the Summer School of the Prince of Wales's Institute of Architecture. The exhibition is highly representative of the approach to architecture and town planning that informs these exceptional summer schools. Prince Charles believes in the importance of civilised urban living, and gradually his summer schools and the new Prince of Wales projects office are spreading the word by example.

The subject of the small exhibition at the Accademia Italiana (8-9 Grosvenor Place, London SW1; telephone for opening hours: 0171 235 0303) is the town of Viterbo, in a relatively unknown (and thus unspoiled) part of northern Lazio.

Viterbo has been the base for the summer schools of the Prince of Wales's Institute of Architecture since 1990 when the first one was held at the magnificent Villa Lante at Bagin.

In that greatest of all Italian renaissance gardens the students absorbed as much (and probably more) from their sur-

roundings as from their academic studies. What this little exhibition shows, and the summer schools demonstrate, is that the best way to learn about architecture is from a direct involvement in an urban project.

The Prince of Wales's Institute is responsible for the evolution and development of a project-based way of teaching architecture, and the publication which the London exhibition launches, *Viterbo - Santa Maria in Gradi*, is a good way of demonstrating the thinking behind the method.

Anyone interested in architecture and urbanism is usually enthusiastic about Italian towns, which, even today, are still places that seem to work and look good. The reason is partly their density; but their human scale and sense of continuity is also pleasing.

Viterbo was once one of the great cities of Europe, a refuge of the papacy and full of churches. Today it still has 5 kilometres of medieval walls, as well as 31 towers and 12 great city gates. Santa Maria in Gradi is the remains of the huge Dominican convent that grew up in the middle of the 13th century. It has been a prison, and was bombed in 1944. The site is now being taken over by the university of Viterbo.

The site is the key to the redevelopment and renewal of an important part of the city. The exercises shown in the exhibition and in the publication are respectful of the nature of the city, and the mayor of Viterbo is determined to see that their approach forms the basis of any new development.

What is it that makes Prince Charles's so different? In this case, it is the way that the students used the whole city as part of their apprenticeship. They are trained to develop an approach to urban intervention which at the same time is part of their architectural educa-

tion. And they are expected to involve themselves with the economic, political and institutional aspects of the city and to engage in endless and thorough public consultation.

The value of this happening during the course of a relatively short summer school is that everything is so focused and concentrated. Although some of the ideas discussed are theoretical, they plant seeds in the imagination of the people who live in these places, and that is very valuable. This task-force approach is something that the new Prince of Wales projects office hopes to apply to urban problems in Britain.

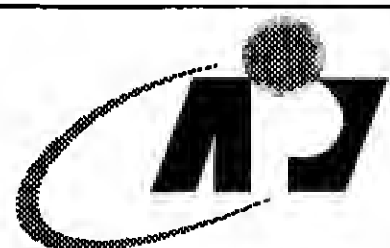
We might call this sort of thing civilising the city. It is a timely exercise, especially as the UK's lottery-funded millennium fund is at present anxiously seeking ideas on how to spend its money.

Virginia Bottomley, the secretary of state for national heritage, made three speeches last week: one to present the annual report of the millennium commission; one to the English Heritage; and one to the Landscape Institute. Although full of optimism about the joys of the flood of lottery money, she seemed to lack a clear theme for celebrating the millennium.

In fact, the ideas in this book and exhibition could give her something to think about. Gradual and careful removal of towns and cities and the removal of the most uncivilised elements is exactly the sort of thing the commission could fund.

Naturally, all this needs highly sensitive handling. Care and compassion are as important in the renewal of cities as in all other aspects of life. Civilised renewal should be the watchword, not just for fine medieval Italian towns but for the most vandalised of inner cities throughout Europe.

CONTRACTS & TENDERS



APV RT.
HUNGARIAN PRIVATISATION
AND STATE HOLDING COMPANY

INVITATION TO BID

The Hungarian Privatisation and State Holding Co. and the ATEX Co. in cooperation with the advisor, Ernst & Young Ltd, invite a one-round, open tender for the sale of 80 percent of the registered capital of

IKARUS VEHICLE MANUFACTURING COMPANY

with nominal value of HUF 9,200,000,000. Besides bids for the purchase of the shares bids for capital increase in cash may also be submitted.

Bids are to be submitted in person or by a proxy in Hungarian, in five copies, in a closed, unmarked envelope to the address given below.

"IKARUS privatizáció"
(Ikarus privatisation)

must be written on the envelope.

The detailed tender invitation and the Information Memorandum on the Company may be purchased from November 6, 1995, on working days, between 09.00 and 12.00 hours at the advisory firm's (Ernst & Young Ltd., H-1146 Budapest, Hermina út 17., 2nd floor, room 219.) for HUF 100,000 plus 25 percent VAT or for USD 800 in case of foreign legal and natural persons. On receiving the tender documents the bidder must also sign a pledge of confidentiality. The purchase of the tender documents is the condition of participation in the tender.

Date to submit bids: January 8, 1996, between 13.00 and 14.00 hours

Place to submit bids: Hungarian Privatisation and State Holding Co. (H-1133 Budapest, Üllösi rakpart 31-33, 8th floor, room 804.)

Bids must be valid for 120 calendar days from the expiration of the deadline for submitting the bids. The Announcers reserve the right to declare the tender void.

Following the purchase of the tender documents information may be obtained from:

Géza Bereczky
portfolio manager
APV Rt. (H-1133 Budapest, Üllösi rakpart 31-33.)
Phone: (36-1) 269-8600, ext: 2659

and

Dr. Zoltán Nagy
senior consultant
Ernst & Young Ltd. (H-1146 Budapest, Hermina út 17.)
Phone: (36-1) 252-8333, ext: 1219

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ TODAY
Arcadian Intl 0.1p
Bank Scotland 8.625p Perp
Bt Nts 536.25

■ WEDNESDAY
November 8
Abnrostr Latin Amer Inv Tst 1p
Cons Murchison R0.50
Healthcare Operators 1 C1 B
Mort FRN '21 231.58
Inspec 2p
Inv Tst of Guernsey 0.855p
Johnston Press 0.75p
Macellan-Glenlivet 0.47p
Mackie Intl 3.7p
NM Smir Australian Cos Tst 1.25p
Nihon Doho Kodan 8.4% Bd '96 \$443.75
Nottingham Gas Anns £1.625
Redland Intl 15.9% Nts '96 A\$153.75
River & Merc Smir Cos Tst 3.075p
Wilson Bowden 2.85p

■ THURSDAY
November 9
Birmingham Mid Bldg Scty FRN '99 £176.44
Cantors 2p
Citic Pacific Fin FRN '97 \$1740.97
Colas Myer A\$0.10
Collateral Mort Socs (No.12) C1 B Mort Bldg FRN '28 £225.27
Forth Ports 3.6p
HALOS 8.4% Bd '18 £4.1875
Intl Bank Rec & Devl 11.5% Ln '08 £5.75
Jerome (S) 0.75p
Liberty 1.85p
Logica 4.5p
Mitsui 4.9% Bd 2000 ¥49000.0
New Throgmorton Tst 1p

■ FRIDAY
November 10
Abbot 0.58p
American Express \$0.225
Amey 2.4p
BS Grp 1.5p
Bilham 2.2p
Boosey & Hawkes 1.53p
Brammer 4.75p
Calor 8p
Cape 3p
Charter 8.5p
China Inv & Devl Rd Partg \$0.29
Christiania Bank Prim Cap Unctd FRN \$329.03
Dewhurst 1p
Eycare Products 0.55p
For & Colonial Pacific Inv Tst 0.8p
Forth Ports Authority 3.4%
Funded Debt £1.875
Gates (UK) 4.4% Rd Db £2.125
HTR Inc & Gwth Split Tst
HTV Grp 1.25p
Hammerston 3.5p
IBC Grp 3p
Inchcape 6.14% Conv Sd Bd '08 £31.25
Investors Cap Tst 4% Db Rd £2.0
Japan Devl Bank 9.4% Nts '95 \$468.75
Korea-Europe \$0.01
Masfey 2.1p
Mirror 1.2p

■ SATURDAY
November 11
Alliance Tst 4.1% Db £2.25
Glasgow Corp 3.1% Irred £1.75
Do Gas 8.4% Annuity £3.375
Do Gas 9% Annuity (Perp) £4.50
Do Water Anns (Perp) 50p
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Home Housing Assoc 8.4% Ln '37 £4.375
Scottish Mort & Tst 4.1% Db Irred £2.25
Second Alliance Tst 4.1% Db (1996) £2.25
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■ SUNDAY
November 12
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■ TUESDAY
November 14
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Second Alliance Tst 4.1% Db (1996) £2.25
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■ WEDNESDAY
November 15
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Glasgow Corp 3.1% Irred £1.75
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■ THURSDAY
November 16
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■ FRIDAY
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■ SATURDAY
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Scottish Mort & Tst 4.1% Db Irred £2.25
Second Alliance Tst 4.1% Db (1996) £2.25
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■ SUNDAY
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Scottish Mort & Tst 4.1% Db Irred £2.25
Second Alliance Tst 4.1% Db (1996) £2.25
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■ MONDAY
November 20
Alliance Tst 4.1% Db £2.25
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■ TUESDAY
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Scottish Mort & Tst 4.1% Db Irred £2.25
Second Alliance Tst 4.1% Db (1996) £2.25
Tor Inv Tst Cap Sds 1.41p
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■ WEDNESDAY
November 22
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Home Housing Assoc 8.4% Ln '37 £4.375
Scottish Mort & Tst 4.1% Db Irred £2.25
Second Alliance Tst 4.1% Db (1996) £2.25
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■ THURSDAY
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Alliance Tst 4.1% Db £2.25
Glasgow Corp 3.1% Irred £1.75
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Home Housing Assoc 8.4% Ln '37 £4.375
Scottish Mort & Tst 4.1% Db Irred £2.25
Second Alliance Tst 4.1% Db (1996) £2.25
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■ FRIDAY
November 24
Alliance Tst 4.1% Db £2.25
Glasgow Corp 3.1% Irred £1.75
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Home Housing Assoc 8.4% Ln '37 £4.375
Scottish Mort & Tst 4.1% Db Irred £2.25
Second Alliance Tst 4.1% Db (1996) £2.25
Tor Inv Tst Cap Sds 1.41p
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■ SATURDAY
November 25
Alliance Tst 4.1% Db £2.25
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Scottish Mort & Tst 4.1% Db Irred £2.25
Second Alliance Tst 4.1% Db (1996) £2.25
Tor Inv Tst Cap Sds 1.41p
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■ SUNDAY
November 26
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Second Alliance Tst 4.1% Db (1996) £2.25
Tor Inv Tst Cap Sds 1.41p
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■ MONDAY
November 27
Alliance Tst 4.1% Db £2.25
Glasgow Corp 3.1% Irred £1.75
Do Gas 8.4% Annuity £3.375
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Second Alliance Tst 4.1% Db (1996) £2.25
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■ TUESDAY
November 28
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Glasgow Corp 3.1% Irred £1.75
Do Gas 8.4% Annuity £3.375
Do Gas 9% Annuity (Perp) £4.50
Do Water Anns (Perp) 50p
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Second Alliance Tst 4.1% Db (1996) £2.25
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■ WEDNESDAY
November 29
Alliance Tst 4.1% Db £2.25
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Do Gas 8.4% Annuity £3.375
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November 9
Birmingham Mid Bldg Scty FRN '99 £176.44
Cantors 2p
Citic Pacific Fin FRN '97 \$1740.97
Colas Myer A\$0.10
Collateral Mort Socs (No.12) C1 B Mort Bldg FRN '28 £225.27
Forth Ports 3.6p
HALOS 8.4% Bd '18 £4.1875
Intl Bank Rec & Devl 11.5% Ln '08 £5.75
Jerome (S) 0.75p
Liberty 1.85p
Logica 4.5p
Mitsui 4.9% Bd 2000 ¥49000.0
New Throgmorton Tst 1p

■ FRIDAY
November 10
Abbot 0.58p
American Express \$0.225
Amey 2.4p
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Bilham 2.2p
Boosey & Hawkes 1.53p
Brammer 4.75p
Calor 8p
Cape 3p
Charter 8.5p
China Inv & Devl Rd Partg \$0.29
Christiania Bank Prim Cap Unctd FRN \$329.03
Dewhurst 1p
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For & Colonial Pacific Inv Tst 0.8p
Forth Ports Authority 3.4%
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Gates (UK) 4.4% Rd Db £2.125
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HTV Grp 1.25p
Hammerston 3.5p
IBC Grp 3p
Inchcape 6.14% Conv Sd Bd '08 £31.25
Investors Cap Tst 4% Db Rd £2.0
Japan Devl Bank



LONDON
The musical "Mack and Mabel" arrives at the Picturedrome Theatre tomorrow in a new production which was launched in September at the Leicester Haymarket. The director is Paul Kershaw; Howard McGinn and Caroline O'Connor (right) play the leading roles. This is a good time to be a jazz fan in London. On Wednesday, in a rare appearance, Ornette Coleman (left) brings his electrifying Prime Time band to the Royal Festival Hall. On Saturday, the London International Jazz Festival starts with George Russell's explosive Living Time Orchestra at the Royal Festival Hall and US saxophonist David Murray at the Walthamstow Art Centre, Stratford.

PARIS
Over the next three weeks the Chalet Theatre is staging a major Schoenberg celebration, including concerts, an exhibition of his paintings. This week's events begin with a concert tomorrow by the Gustav Mahler Youth Orchestra under Claudio Abbado. Wednesday is the first night of Herbert Wernicke's new production of "Moses und Aron", with Christoph von Dohnanyi conducting the Philharmonie Orchestra. Later in the month there will be a staging from Brussels of "Erwartung" starring Anja Silja.

NEW YORK
The New York Philharmonic makes few concessions to contemporary music, and when it does - as in its annual Composer Week - it makes sure the programming is reasonably familiar. This season's choice is Lukas Foss (b.1922), the Berlin-born American who studied with Hindemith. Kurt Masur conducts Foss's "Renaissance Concerto" and "Song of Songs" on Thursday, Friday and Saturday at Avery Fisher Hall, in a programme which also includes vocal works by Foss.

WASHINGTON
The great 17th century Dutch master Johannes Vermeer evoked a poetic atmosphere in images of everyday life. The first show devoted solely to his work opens at the National Gallery of Art on Sunday and includes several lesser known religious and mythological paintings as well as his more familiar landscapes and genre images. The show moves to The Hague next March.

Much ado about City's troubled gift to nation

Antony Thorncroft meets the Barbican's new chief

John Tusa, who takes over as managing director of the Barbican next week, is in an excellent mood. "On Day One I will call in the department heads and staff and hear from them what they want to do about the place," he says.

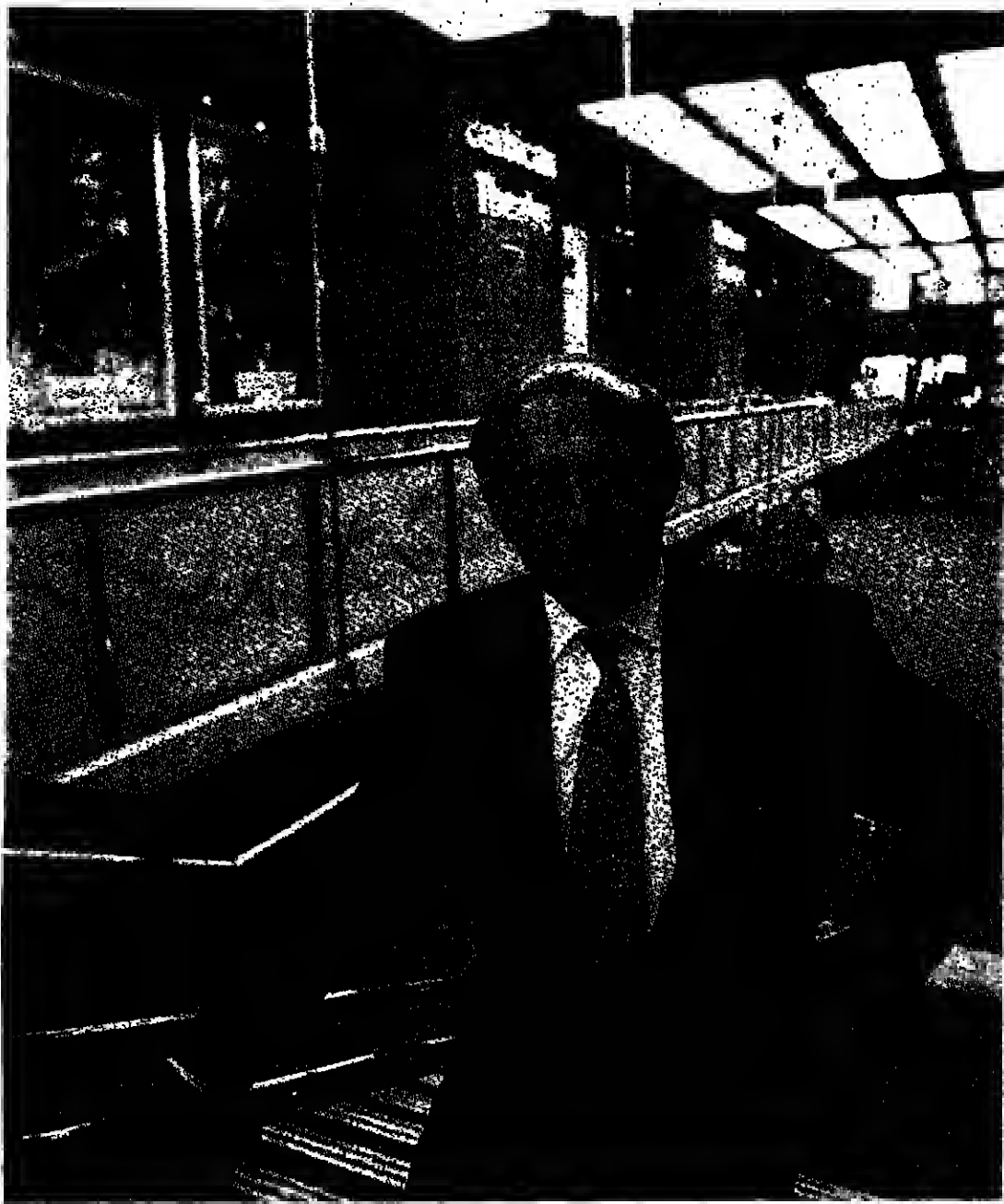
There is method in the diplomatic approach of this old BBC warhorse. His predecessor, Detta O'Callaghan, rubbed her workforce up the wrong way. Tusa is going for consensus, making clear that a new era has started for the City of London's arts centre.

In fact it began before his arrival. Changes, planned and unplanned, have come fast and furious since the O'Callaghan suddenly disappeared last December. To plug the gap the City put in its chamberlain, Bernard Harty. It was an inspired choice: it enabled this top City civil servant, who has since been chosen as chief executive, to get to know every nook and cranny of the Barbican Centre, which costs the City around £18.5m a year in subsidy. Harty will offer a sympathetic and informed ear to any suggestions by Tusa, who has been assured that money, in reasonable quantities, should not be a problem.

Already the City is committed to spending £5m to make the Barbican a friendlier place, and a new artistic director, Graham Sheffield, has been poached from the rival South Bank with the task of boosting audiences in the concert hall on those nights when the LSO, the resident orchestra, is absent - well over 200 a year. The City Fathers have grown to love the Barbican and want it to succeed.

This presents Tusa with his main problem: he arrives half way through the face-lift. Can he summarily dismantle new signs, fresh carpets, the gilded figures of the artistic graces which add charm to the previously invisible main entrance? Once again he adopts a soothing approach. "In the first year I'll find out any problems. In the second year I'll come up with solutions. In the third year I'll put them into practice." That will bring him neatly to the end of his three-year contract, but as he will only be 62 he hopes for another three years of quiet success.

When Tusa thought about applying to the Barbican his friends queried whether it was a real job. What was there to do in an arts centre



New challenge: John Tusa is optimistic as he prepares to take over a daunting task

which has both a successful resident orchestra and a successful theatre company, the RSC? What was there to manage but the exhibition centre, the bars and restaurants, the toilets and the security staff?

Since then a real job has materialised. Adrian Noble's decision to tour the RSC for the six summer months from 1997 has opened up unexpected options. One of Tusa's first tasks will be to negotiate a new contract for the RSC when it returns to the Barbican and Pit theatres in the autumn of 1997. His

second task will be to market the theatre for six months a year. Mindful of one of O'Callaghan's weaknesses, Tusa maintains that he will give Sheffield a free hand on the creative side. "I don't want to programme concerts. I've not the skill or the knowledge. I want to get all the people under this one roof talking. The ideas will flow and the missing synergy will return."

Tusa is greatly helped by the arrival of Sheffield, who has to repeat at the Barbican the task he was hired for at the South Bank: to make good the shrinking audience

for classical music by imaginative programming in other areas. Sheffield has been at the Barbican for a month but has already conducted an audit of the place and come up with ideas.

Sheffield wants to attract new promoters to the Barbican, offering more jazz, more world music, even more pop, although he does not envisage the Barbican shedding its classical robes quite so energetically as the South Bank.

He believes that the promoters' and Barbican's budgets can be pooled on joint marketing cam-

paigns. He wants flexibility on programming: "Why do all concerts have to start at 7.30?" He expects more appearances by regional orchestras, like the recent success of the Bournemouth Symphony.

In the theatre during the summer months Sheffield anticipates world-theatre seasons, visits by provincial companies, more dance theatre. He wants to attract the foreign artists who visit the Edinburgh Festival but give London a miss, such as Pina Bausch. "The Barbican is unique in London because it is the only theatre inside an arts centre so it can be integrated with the concert hall, the cinemas and the art gallery."

Tusa is likely to agree with Sheffield's ambition to pull all the arts activities of the Barbican together. It is an ambition expressed by every previous managing director and every arts director, but this time there seems more of a will, and an awareness that the City will be supportive.

Another attempt will be made to resolve the ingrained problem of the Barbican: the contrast between its austere, ugly exterior and its warm interior. Art works could be commissioned or borrowed for the outdoor spaces, and greater use made of the sculpture court and conservatory. Artists may be asked to submit ideas on how to transform the bleakest thoroughfare in London, the road tunnel that runs alongside the centre. The local population will be wooed and educational projects started.

With the RSC away the opportunity will be taken to improve the theatres. The Pit will be increased in size by dismantling a nearby unused rehearsal room, and the Barbican theatre transformed by new seating, a spring stage for dance, better acoustics and a modern audio visual system. It is probable that the theatre will be closed during most of the summer of 1997 for the refit.

Tusa has one central strategy: "To make the whole greater than the sum of its parts." He sees managing the Barbican as similar to his task at Bush House where he ran the BBC World Service; the same mix of making sure that both the building worked and the staff.

Ironically, in her last year O'Callaghan pushed through many improvements, not least in the acoustic of the concert hall and the comfort of the facilities. Ironically again, Tusa shares with her a history of falling out with colleagues. He resigned as president of Wolfson College, Cambridge, after just nine months. At the Barbican, though, there is much optimism and confidence. The City's arts gift to the nation may at last amount to something.

Dance/Clement Crisp Golden moments under Umbrella

This Dance Umbrella season is proving more distinguished than some in recent years, which have resembled a *danse en purgatory*. A festival that shows creativity by Cunningham, Richard Alston, Siobhan Davies, Mark Baldwin, DVB, Steve Paxton, Russell Maliphant and Matthew Hawkins, is one to salute. (It is the very nature of the beast that amid such gold there will be dross-dance; but we ignore it in the hope that, like the drunk in the railway carriage, it will go away.)

Mark Baldwin showed work at Riverside last week, and his creations are so intriguing that I am almost prepared to forgive the management for the Little-Ease seating they provide in Studio 1. (Do they suppose that the dance public is made up of midgets with novocaine posterior who like to play sardines? The Tokyo metro at rush-hour is more congenial than this forcing house for discomfort.) Baldwin, latterly with Rambert, has been making disconcerting, witty, side-ways-on dances for the past few years, and each time I see them I am fascinated by his musical sense - never obvious, oddly right - and by his curvilinear, hand-writing as a creator. Scale is small - a company of seven dancers - but artistic horizons are broad.

Last week's show repeated two pieces I have written about admiringly in the past. His *Concerto grosso* has dance placed firmly on the music as four performers (Shelley Baker, Paul Old, Deborah Saxon, Vivien Wood: all excellent) sail with lively and easy skill on the Handelian phrase. *Out of Doors* explores Bartok's piano suite (played with fine understanding by John Sweeney), pointing out its emotional and dramatic qualities. The night music section is very fine, a nocturne in the depths of the country where we see movement of birds and predatory animals amid mysterious rustlings and cries.

There were also three brief solos: clever, a bit indulgent, though Baldwin's own outburst of sly jolliness is the sort of thing that his friends probably hail as "Exactly like him!". The big new piece was *Vespi*, with a Monteverdi score and, I gather, experiment with movement from *Life-form* computer graphics and video film. Whatever the ingredients, the dance is unexpected, and intriguingly set with or against or across the score. You watch, fascinated, as action curves round and through the music. The set may momentarily rebel, but choreographic logic, the sudden click as dance and sound match, reveal how clever is Baldwin's scheme, and how alert his talent.

At the Queen Elizabeth Hall (*your comfort moderne* be it gratefully



Stardust: Isabel Tamen and Christopher Tudor

noted) on the next night, Richard Alston showed his newest stagings for his Dance Company. Very welcome the revival for the troupe of *Rainbow Bandit*, which is now a classic of post-modernism. Serene, long-lined dance in silence, its phrases interlocking, is the calmest of forerunners to the bright dynamism that follows as Charles Anthonian's spoken text ("Rainbow/cheek/hand/pomb") woven into a complex fabric of sound drives movement onward. The piece is still exhilarating. I think it would be more so were the costumes (by Belinda Ackerman) less bold. Bright leopards, torsos block-like in solid bands of colour, make the dancers look heavy. This is exactly what the choreography does not do.

Alston's new piece is *Sometimes I wonder*, a tribute to *Stardust*, which we are told is the most recorded song of all time. So 10 (out of 1,500) versions are played, and the dance costs along with them. The melody is insidiously memorable in its line. The lyrics are enigmatic, invoking nightingales telling fairy-tales and "the melodee of love's refrain". Though we only have four sung versions, the sum effect is dire, with the dazzling exception of Art Tatum's Lisztian display.

Alston's movement hints at social (styles around at the recording date) as well as emotional matters, but the song is really such a bore that the choreography looks more gratuitous than apt. The costumes are not of the happiest in cut or colour. The dancers are willing, and Leesa Phillips and Andrew Robinson, with a newcomer, Ben Ash, are notably good.

INTERNATIONAL ARTS GUIDE

AMSTERDAM

OPERA/BALLET
Het Muziektheater Tel: (020) 551 8922
● The Flying Dutchman: by Wagner. Conducted by Graeme Jenkins and directed by Richard Jones. Soloists include Harald Stamm, Karen Huffstodt, Mark Baker and Hebe Dijkstra; 8pm; Nov 7, 9

BERLIN

GALLERIES
Bauhaus Archiv Tel: (030) 254 020
● The A and O of the Bauhaus: more than 400 Bauhaus advertising designs that demonstrate their printing, typography and graphics; to Nov 12

BRUSSELS

CONCERTS
Beaux-Arts Tel: (02) 507 8200
● Belgian National Orchestra: Yuri Siminov conducts Magnard's "Hymne à la Justice", Dvorák's "Concerto, opus 104" and

Rachmaninov's "Symphony No.3"; 8pm; Nov 12
● Collegium Vocale: Philippe Herreweghe conducts Purcell's "Hail Bright Cecilia" and Humphreys "Three Anthems"; 8pm; Nov 10
● Ensemble InterContemporain: Pierre Boulez conducts Berg, Webern and Schönberg; 8pm; Nov 9
● Conservatoire Royal de Musique Tel: (02) 675 5414
● Peter Donohoe: pianist plays Prokofiev's Sonata's six, seven and eight; 8pm; Nov 6

LONDON

CONCERTS
Royal Festival Hall Tel: (0171) 928 8800
● BBC Symphony Orchestra: with soprano Judith Howarth. Richard Hickox conducts Britten, Nyman and Elgar; 7.30pm; Nov 9
● Royal Opera House Tel: (0171) 304 4000
● Manon: directed and choreographed by Kenneth Macmillan to the music of Massenet and conducted by Barry Wordsworth; 7.30pm; Nov 7, 8, 11 (7pm)
● Swan Lake: choreographed by Marius Petipa and Lev Ivanov. Viktor Fedotov/Anthony Twinn/Barry Wordsworth conducts Tchaikovsky; 7.30pm; Nov 6, 9, 10
OPERA/BALLET
English National Opera Tel: (0171) 632 8300
● The Barber of Seville: by Rossini. Conducted by Jane Glover and directed by Henry B. Little from the original direction by Jonathan Miller. Soloists include Alan Ople, Jean Rigby/Fiona James, Charles

Workman and Gordon Sandison; 7.30pm; Nov 9
● The Fairy Queen: by Purcell. A new production conducted by Nicholas Kok and directed by David Pountney. Soloists include Yvonne Kenny, Janka Kelly, Mary Hegarty and Yvonne Barclay; 7.30pm; Nov 11
THEATRE
National, Cottesloe Tel: (0171) 928 2252
● Cyrano: by Edmond Rostand, adapted by Ranjit Bolt and directed by Anuradha Kapur. Rostand's French romance relocates to 1930's India with a mixture of colour, live music and dance. Cast includes Naseeruddin Shah; 7.30pm; Nov 8, 9 (2.30pm), 10, 11 (2.30pm), 13
● Skylight: by David Hare. Directed by Richard Eyre and starring Michael Gambon and Lia Williams; 7.30pm; Nov 6, 7 (2.30pm)
National, Lyttelton Tel: (0171) 928 2252
● La Grande Magie: by Edouardo de Filippo in a translation by Carlo Arcilio. Richard Eyre directs Alan Howard and Bernard Cribbins in de Filippo's comedy; 7.30pm; Nov 10, 11 (7.15pm), 13

LOS ANGELES

CONCERTS
Dorothy Chandler Pavilion Tel: (213) 965 3500
● Los Angeles Philharmonic: Mikhail Pletnev conducts Beethoven's "Symphony No.4" and Tchaikovsky's "Symphony No.6"; 8pm; Nov 9, 10 (1.30pm), 11, 12 (2.30pm)
GALLERIES
Museum of Contemporary Art Tel: (213) 626 6222

● Cycles, Strategies, Dialogues: work created during the 1990's from the museum's permanent collection that survey the decade of aesthetic investigation; to Nov 12

NEW YORK

CONCERTS
Carnegie Hall Tel: (212) 247 7800
● Budapest Festival Orchestra: with pianist Zoltán Kocsis, mezzo-soprano Ilkko Komlósi and bass Kolos Kovács. Iván Fischer conducts an all-Bartók programme; 8pm; Nov 11
● Chicago Symphony Orchestra: concert performance of R. Strauss' "Elektra" conducted by Daniel Barenboim. Soloists include Deborah Polaski, Alessandra Marc, Ute Priew and Falk Struckmann; 8pm; Nov 9
● Frederica Von Stade: pianist plays Argento, Scarlatti, Mahler, Fauré and Granados; 8pm; Nov 13
OPERA/BALLET
New York City Opera Tel: (212) 307 4100
● Temple of the Golden Pavilion: by Mayuzumi. A new production directed by Jerome Skrin and conducted by Christopher Keene. Based on a novel by Yukio Mishima in an English translation by Christopher Keene; 8pm; Nov 8
● Turandot: by Puccini. Conducted by Guido Ajmone-Marsan and produced by Jonathan Eaton; 8pm; Nov 7 (6.30pm)

PARIS

CONCERTS
Champs Elysées Tel: (1) 49 52 50 50
● Festival Orchestra of Brescia and Bergamo: with pianist Zoltán Kocsis.

Iván Fischer conducts Bartók's "Concerto for Piano and Orchestra No.2"; 8.30pm; Nov 7
● Festival Orchestra of Brescia and Bergamo: with pianist Zoltán Kocsis. Iván Fischer conducts Bartók's "Concerto for Piano and Orchestra No.3"; 8.30pm; Nov 8
● Festival Orchestra of Budapest: with pianist Zoltán Kocsis, mezzo-soprano Ilkko Komlósi and bass Kolos Kovács. Iván Fischer conducts Bartók's "Concerto for Piano and Orchestra No.1"; 8.30pm; Nov 8
● National Orchestra of France: Evgeny Svetlanov conducts Tchaikovsky; 8pm; Nov 9
GALLERIES
Musée Du Petit Palais Tel: (1) 42 85 12 73
● In the Shadow of Vesuvius: works from the Museo Archeologico Nazionale di Napoli which includes statues, frescoes and ceramics; from Nov 6 to Feb 25
OPERA/BALLET
Opéra National de Paris, Bastille Tel: (1) 47 42 57 50
● Eugene Onegin: by Tchaikovsky. A new production produced by Willy Decker and conducted by Alexander Aronson. Soloists include Gerlinde Lorenz, Solveig Kringsborn/Galina Gorchiakova, Anthony Michaels-More; 7.30pm; Nov 9, 11
● Les Variations d'Ulysée: a new production choreographed by Jean-Claude Gallota to the music of Jean-Pierre Drouot; 7.30pm; Nov 6, 12 (3pm)

VIENNA

GALLERIES
Architektur Zentrum Wien Tel: (1) 522 3115

● Architecture and City: part of the "80 Days" Architecture Festival. This festival presents a broad range of discussions, concepts and projects in the field of urban architecture; to Nov 12

WASHINGTON

CONCERTS
Kennedy Center Tel: (202) 467 4600
● Itzhak Perlman: violinist with pianist Samuel Sanders; 7.30pm; Nov 13
● National Symphony Orchestra: with violinist Laurence Kayalah, Leonard Statkin conducts Mumford, Hartke, Bruch and Mahler; 8.30pm; Nov 7 (7pm)
● National Symphony Orchestra: with soprano Kathleen Battle. Leonard Statkin conducts Previn and other orchestral works; 8.30pm; Nov 8
● National Symphony Orchestra: with mezzo-soprano Jari Van Nes. Leonard Statkin conducts Adler, Purcell, Britten, Berlioz and Conglano; 8.30pm; Nov 8, 10, 11
OPERA/BALLET
Washington Opera Tel: (202) 416 7800
● Der Rosenkavalier: by Strauss. Conducted by Heinz Fricke and directed by Michael Heinicke. Soloists include Helen Donath, Jeanne Pland, Eric Hultvarson and David Evitts; 7pm; Nov 11, 13
● Luisa Miller: by Verdi. Conducted by Richard Buckley and directed by Christopher Mataliano. Soloists include Veronica Villalón, Lando Bartolini, Hailing Fu and Gabor Andrásy; 8pm; Nov 8, 12 (2.30pm)

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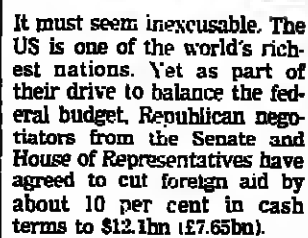
Financial Times Business Tonight

COMMENT & ANALYSIS

Michael Prowse · on America

The assault on aid

Rather than criticise, the doubters should ask whether Republican policies are good or bad for the third world



It must seem inexcusable. The US is one of the world's richest nations. Yet as part of their drive to balance the federal budget, Republican negotiators from the Senate and House of Representatives have agreed to cut foreign aid by about 10 per cent in cash terms to \$12.1bn (£7.65bn).

The cuts are being imposed on an aid budget that already looked miserably by international standards. In 1993 the US devoted just 0.15 per cent of gross domestic product to aid, putting it bottom among leading industrial countries. The Scandinavian nations – the most generous donors – regularly contribute about 1 per cent of GDP.

Critics point out that some of the deepest cuts are being imposed on aid given through multilateral organisations, even though it is more efficiently administered than bilateral aid. The biggest casualty is the International Development Association (IDA), an affiliate of the World Bank that lends at nominal interest rates to the poorest nations.

The US is cutting its IDA contribution to \$700m from \$1.2bn in fiscal 1995, a reduction that many aid experts argue threatens the future of the scheme. No austerity, needless to say, is being demanded of geopolitically favoured nations: Israel and Egypt will get \$5.1bn, more than 40 per cent of the total aid budget.

The distribution of these cuts is indefensible. If Washington is to remain in the development business, IDA is the sort of programme that deserves support. But I do have some sympathy for the scepticism about official assistance that underlies the US cuts.

Note that Republicans are reducing only one category of aid: that which the US government forces citizens to provide via taxation. There is nothing to prevent individuals increasing their voluntary contributions to charities such as Save the Children. Indeed, if pri-

vate giving does not rise, Republicans can surely argue that in cutting official aid, they are respecting the true preferences of US citizens.

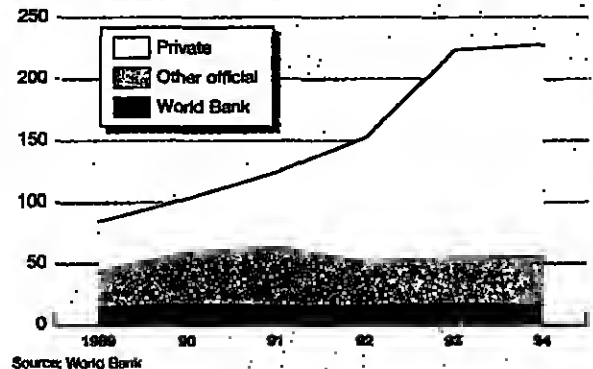
Listening to third world lobbyists, you might imagine that official aid is an essential engine of development. If it were, there would have been no economic development prior to the 1980s, when aid flows mushroomed, in part to combat the spread of communism.

Incredibly enough, the British industrial revolution got under way without any guidance from the World Bank or International Monetary Fund. When Japan wanted to industrialise itself in the 1870s, it did not demand grants from rich European nations; it sent people to study the latest industrial techniques and then copied them. Even in recent times, development has depended mainly on nations' own efforts: east Asia is far wealthier than Africa, not because it has received more aid but because it had the political will to pursue market-friendly policies.

Official aid is rapidly declining in significance because of the big expansion in flows of private capital to developing countries, as the chart shows. Sceptics will retort that a dozen countries (many in Asia) absorbed 80 per cent of the private flows last year.

Declining significance of official aid

Flows to developing countries (\$bn)



Source: World Bank

But this is precisely the point. The market forces everyone to compete. Developing countries that embrace the kind of policies expected to generate sustained growth – and hence high investment returns – will not be overlooked for long. A profit is a profit: Wall Street would be only too happy to market African growth funds. But it will not do so until concrete economic reforms are enacted.

The crucial question is whether multilateral agencies can help the laggards get into shape. I have reservations, but they are far removed from the doubts frequently expressed by voluntary groups such as Christian Aid. The charities seem to think that officials at the IMF and World Bank are too tough, that they inhibit growth by attaching unnecessarily restrictive conditions to loans. In my experience such officials are anything but hard-nosed. They tend to believe strongly in interventionist policies and are desperately keen to help poor countries.

Problems arise, ironically, because they often make loans without demanding sufficiently ambitious structural reforms. They give nations an undeserved seal of approval, and stimulate private lending that would not otherwise occur. Yet because recipients fail to implement the neces-

sary reforms, economic growth does not speed up. And the client country eventually finds itself unable to service the original loans. Many African countries have unrepayable debts, not because multilateral agencies were too harsh, but because the agencies lent too readily, given these nations' weak commitment to reform.

Rather than chastising the US for cutting back on official aid, critics should ask whether Republican policies, as a whole, are good or bad for the third world. One of the ironies of the present debate on development is that those who shout loudest for more official aid strongly defend domestic economic policies that directly damage the interests of poor countries.

Think of the numerous restraints that rich countries impose on exports from the third world, especially in agriculture. Yet are aid activists prominent among those demanding free trade in any sphere? Consider fiscal policy. By running scandalously high budget deficits, industrial countries have almost certainly substantially increased the global level of real interest rates, thus undermining developing countries' ability to borrow to finance investment. The only feasible way to reduce these deficits is to reduce growth of social spending in rich countries – for example by privatising pensions or asking parents to pay just a little towards the cost of education. Yet do aid activists favour a contraction of welfare at home?

Those heartless Republicans, on the other hand, are willing to curtail social programmes. They do believe in free trade. And they have produced the first credible proposal for balancing the US budget in quarter of a century – a proposal that includes cuts in farm subsidies. They may be opposed to foreign aid, but they are not anti-development.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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A flexible approach to air traffic management

From Mr D. K. Reynolds

Sir, In a speech last month at the European Aviation Club's Symposium on Air Traffic Control in Brussels, Sir Christopher Chataway, the Civil Aviation Authority chairman, said: "I can find no convincing argument to promote the case for a European International Institution as the single system authority responsible for planning, financing, managing, operating and maintaining Europe's Air Traffic Control System. This is a collection of very difficult complex businesses operating in 34 different highly political environments. It is extraordinarily unlikely that

the political and management genius exists to run all these organisations as a single entity."

The Guild of Business Travel Agents, whose members handle the bulk of business air travel from the UK, could not agree more. However, it entirely misses the point which was, during the 1980s, airline associations in Europe, have been making. What Europe needs is for its various national air traffic management networks to operate as a seamless single system. Such a system, while overseen by a single authority with the powers to enforce decisions collectively agreed, would not require the

establishment of one large bureaucratic authority, as Sir Christopher appears to assume. All that is required is the political will from European Union member states to organise air traffic management in Europe in the most efficient manner possible. There are some aspects of air traffic management that would benefit from greater centralisation, while others should remain within the province of individual states. It is significant that the ministers of transport of the European Civil Aviation Conference agreed last year to "a study... of the institutional arrangements best suited to support the

implementation... of the en-route strategy, respecting the sovereignty interests of the states; and taking into consideration all options, including a single authority for European air traffic management".

Rejecting the extreme of a single bureaucratic authority does not necessarily mean that other much smaller and effective authorities would not be better than the present inefficient situation.

D. K. Reynolds,
chief executive,
Guild of Business Travel Agents,
Arillery Row,
London SW1P 1RT, UK

North west UK no magnet for inward investment

From Mr Jeffrey Gizzard

Sir, The article "Airport lures investors to northern 'honeypot'" (October 31) painted a picture of inward investment in the north west of England that those of us who live here find hard to recognise.

Feature Films for Families' investment here is a small telephone sales call centre marketing its range of "wholesome" videos direct to the public. The jobs it provides are welcome but hardly on the scale of, say, Samsung's plant in County Durham.

The north west has sadly performed significantly less well in inward investment terms than Scotland, Wales or the north east of England over a number of years, despite the alleged attractiveness of Manchester Airport. If the chief executive of Manchester's Chamber of Commerce description of Ringway as the north's economic "honeypot" is true, then where are our Samsung, Nissan or Toyota equivalents?

Each potential investor weighs up a range of criteria – site, labour, grant assistance, transport infrastructure and so on – before sticking the pin in the map. Presumably by not

investing in the immediate environs of Manchester Airport and daring to go elsewhere, investments totalling billions of dollars have been made in the UK by some of the world's largest companies.

With 75 per cent or more of Manchester Airport's millions of passengers being outward-bound leisure travellers, the only economies guaranteed to benefit from future expansion are those of places such as Florida, Spain and Greece. Manchester's route network has suffered a number of setbacks recently, with Qantas, South African Airways, British Airways and American Airlines all ceasing services on some routes, citing lack of profitability because of the absence of high-yield business passengers.

Most commentators accept there is plenty of room for growth left at Manchester with a single runway, and Liverpool Airport is willing and able to develop to handle an increasing share. Surely this is the solution to aim for?

Jeffrey Gizzard,
27 Delmar Road,
Knuttsford,
Cheshire WA16 8BG, UK

Long hours are bad for business

From Ms Jane Johnson

Sir, As Andrew Bolger says in "Epidemic of longer hours hits families" (October 26), this trend of long working weeks is not helping anyone.

In fact, the title of the article actually seems quite appropriate in comparing it to a disease.

Like a disease, this extra time at work causes families to suffer, lowers the morale of employees and increases employee health costs for companies.

Even if these personal issues

did not matter, this disease causes decreasing levels of productivity and individual performance, which has a definite effect on the economic status of companies.

I wonder when companies will realise that encouraging long hours is a mistake and decide to curb the spread of this disease called overtime.

Jane Johnson,
2407 Eighth Street,
Tillamook,
Oregon 97141,
US

Personal View · Samuel Brittan

Symbolism of lighthouses

Maritime aids cast a guiding light in the battle between rival economic doctrines

&

The lighthouse has long been a symbol of order in a world of chaos. Its symbolism stretches to economics, where it has been used by classical writers from Adam Smith onwards as an example of a public good that cannot be supplied by market forces and has to be left to government provision. The example has been cited, time without number, to show that, so far from advocating crude laissez-faire, classical economists recognised well enough when intervention was necessary.

But lately I have been quietly rebuked for using this example by sons of the more fervent free marketeers who say: "Don't you know that the lighthouse example is all wrong? It is one of dozens of cases where Smith conceded too much to the interventionists." As the re-examination of the lighthouse is largely the work of Prof Ronald Coase, the English Nobel Prize winner, whom I mentioned in this column last Monday, I decided to investigate further. Coase's account is to be found in *The Firm, the Market and the Law*, a slim paperback volume published by the University of Chicago Press in 1990, which has the advantage of containing all the classic papers for which Coase received his prize.

He has based his lighthouse analysis not on Smith directly but on the 19th century political economist, John Stuart Mill, and successors down to Paul Samuelson in our own day. The fully developed interventionist case states:

● Private enterprise lighthouses will never be profitable because there is no way of ensuring that passing ships pay for the benefits they receive.

● Even if charging were possible, it would be inefficient. The cost of providing a signal for an extra ("marginal") boat is virtually zero. So the price mechanism leads to under-utilisation of lighthouse facilities. It is therefore best that lighthouses be financed from the general revenue. (This second argument turns up in broad-casting economics, where the cost to a channel of an extra viewer is also almost zero.)

Coase reminds other economists that the provision of lighthouses in Britain has been the responsibility of Trinity House since 1868. This is a typical British institution, a private corporation with public duties (like the pre-war Bank of England). It is controlled by "elder brethren" – the master of whom is the Duke of Edinburgh. Like many such institutions, it lapsed into sloth during the 17th century and for a time built no new lighthouses. But it did grant leases to individuals whose tolls were collected by customs officials at ports.

By 1799 four lighthouses in succession had been erected by private enterprise on the Eddystone rocks off Plymouth. By 1820 there were 22 private lighthouses and 24 operated by



Trinity House. In the course of the 19th century, the leases of these private operators fell due and Trinity House took them over. "Light charges" are now levied at the ports by the Customs and Excise, although there have been discussions about transferring the responsibility elsewhere as a result of new customs procedures in the EU single market.

Some ship-owning bodies have, unwittingly, followed in the wake of mainstream political economists in urging that the government should finance lighthouses from general revenue. Coase is very much against this. For if the government financed lighthouses directly, it would have to regulate and inspect them, which would raise costs. Coase cannot resist quoting a definition of the American lighthouse as "a tall building erected on the

seashore in which the government maintains a lamp and the friend of a politician". The UK system gives everyone an incentive to hold down costs, since Trinity House has to submit its budget to the Department of Transport at an annual conference, where the Chamber of Shipping is also represented.

The UK system of charging also avoids the problem of under-utilisation. For lighthouse charges are levied only on the first seven voyages each year of a foreign-going ship. This means, in the typical case, that it will be paying zero for its marginal lighthouse use, which would gladden the hearts of orthodox economists.

Coase does not actually urge a return to ownership by dozens of individual lighthouse-keepers, saying that he is merely drawing attention to the numerous possibilities open. He is mainly concerned to rebuke "blackboard economists" for not investigating what actually happens. But I cannot help pointing out to his putative ultra-free market followers that the Trinity House system, which he regards as at least less bad than pure state finance, involves nationwide rate fixing and negotiations between trade bodies, which they would denounce as corporatist if proposed by a political party for a modern industry.

If I must draw a moral, it is that markets have indeed, many more possibilities than their critics suppose, but that they require a much more subtle political, institutional and legal structure to function than is dreamed of by the enthusiasts who frequent the free-market think-tanks.

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COMMENT & ANALYSIS

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700
Monday November 6 1995

He shall not die in vain

The shocking assassination on Saturday of Yitzhak Rabin by a Jewish religious fanatic cannot be allowed to undermine his efforts to secure peace in the Middle East. Today's funeral of Israel's soldier-prime minister will be an extraordinary display of international solidarity with Israel and support for the peace process. It should also be the occasion for Israel's political establishment, viscerally divided over the wisdom of a settlement with the Arabs, to rally behind Mr Rabin's successor and fellow architect of peace, his foreign minister Shimon Peres.

All that is the natural, immediate response to such a murder. But it will serve for little unless it produces a lasting conviction that there is no other path for Israel than the difficult road to peace chosen by Mr Rabin.

The former general who conquered the West Bank, Gaza Strip, and the Golan Heights in the 1967 Arab-Israeli war was a reluctant peacemaker. Logic, pragmatism of a particularly military kind, and concern for the nature of the Jewish state he helped bring into being all led him to conclude that Israel could not continue to rule over 2m Palestinian Arabs against their will. In his sober analysis, would never be secure while a fast-expanding Arab population seethed with resentment against an occupation which was, moreover, brutalising Israeli society.

Verbal terrorism

Saturday's killing was a horrific example of that brutalising process. It was preceded by a campaign of verbal terrorism conducted by extremist Jewish settlers and rabbis opposed to any surrender of occupied land, who painted Rabin as a murderer and a traitor. The right-wing Likud party, manoeuvring to defeat Mr Rabin's minority Labour coalition government at elections due by next November, provided a respectable umbrella for that campaign, not least by threatening to renege on the self-rule accords with the Palestinians, and to refuse to return the Golan Heights to Syria in exchange for peace.

The Rabin murder should demonstrate to the Likud and its supporters that to temporise with extremism is to pit Jew against Jew.

The Federal Reserve's decision last week to order the closure of all Daiwa Bank's operations in the United States seems a draconian response to the alleged cover up of \$1.1bn (£733m) of trading losses in the bank's New York branch. Given the Fed's own failure to secure the separation of custody and trading functions at the branch, there is bound to be a suspicion that the action was partly self-serving. Some may also question the wisdom of such a punitive move against the world's 19th largest bank when nervous international markets are imposing shortening maturities and a higher cost of dollar funds on Japan's banks.

In fairness to the Fed, the nature of the alleged fraud is almost beyond comprehension at a bank of this size and stature. Daiwa's New York branch is said to have concealed the existence of a Treasury securities trading office by disguising it as a storeroom before inspections by US bank supervisors. The bank is accused of lying over compliance with demands to tighten internal controls. Its officials are also alleged to have systematically deceived the US authorities once the fraud was discovered. Given the resulting worries about the quality of control and oversight at Japanese banks in the US, there was a powerful case for termination *pour encourager les autres*, as well as to deal with Daiwa itself.

Public hostility

The Fed's decisiveness also offers a salutary lesson in crisis management to the Japanese government. In dealing with a full-blown banking disaster the Ministry of Finance and the Bank of Japan have been irresolute. Operating against the use of taxpayer's money in bank bail-outs, they have kept weak banks afloat while seeking to downplay the extent of the crisis. The result is that the remaining sound banks are being undermined.

Now that there is a greater readiness to contemplate liquidation at insolvent financial institutions, the costs of this middle-through approach are becoming all too apparent, notably at the insolvent *jusen* housing loan cor-

Jew, in a way which corrodes Israel's democracy and which, taken to its logical limits, could invite civil war. There was a hint of such realisation yesterday in Likud leader Benjamin Netanyahu's pledge to endorse Mr Peres as acting prime minister, and in his remark that "in a democracy, a government is changed by elections, and not by murder." But Mr Peres will need to do more than rely on a temporarily chastened opposition.

Secure future

Mr Peres has always come across as more philosophically committed to peace than Mr Rabin. But it was the slain premier - often Hamlet-like in his indecision before taking specific steps towards peace - who had the confidence of the generals, and whom a majority of Israelis believed could be trusted with the country's security.

The process of spreading Palestinian self-government throughout most of the West Bank has barely started, but Mr Peres must quickly convince civilian and uniformed Israelis that therein lies their best hope of a secure future. It is not yet clear whether next year's elections will be brought forward. But Mr Peres needs in any case to establish his authority immediately.

He should make clear to the fractious government coalition that Israel has no option but to follow through with its choice of peace. That also means a reinvigorated attempt to restart substantive negotiations with Syria, stalled since the summer. He should challenge Likud and the right to distance themselves unequivocally from the sort of agitation which led to Saturday's tragedy. He also has the right to expect that President Ezer Weizman ceases his calls to halt moves towards Palestinian self-government - a contributory factor to recent doubts about the peace process.

In a letter Mr Peres wrote at the time of the 1993 breakthrough in Israeli-Palestinian negotiations, he remarked that "the biggest risk of all is the inability to take any risks." That is the message he urgently needs to convey to his people if Mr Rabin's death is to serve the purpose of peace.

Fed lessons on Daiwa

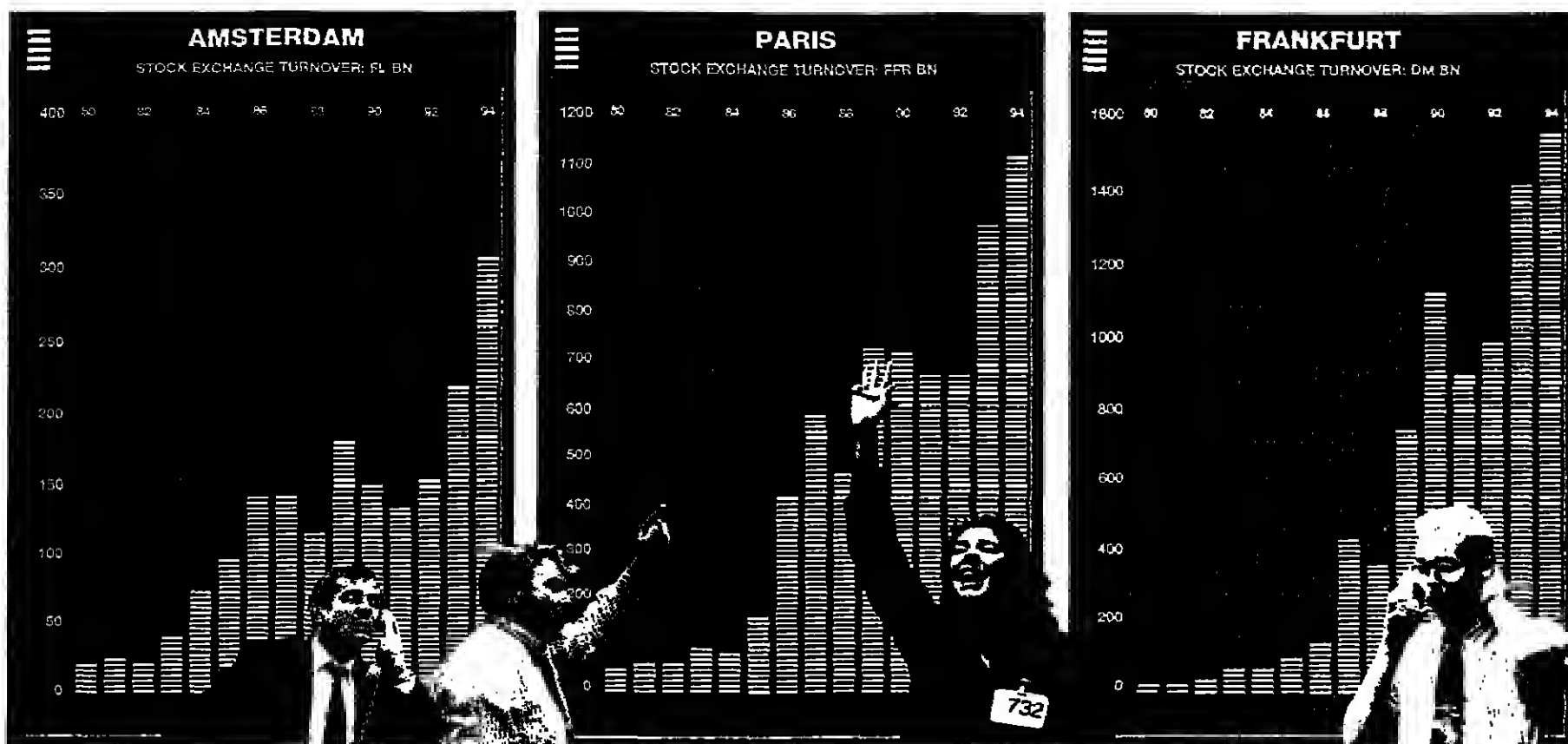
Nearly half the \$14,000bn (\$86bn) loan book of the affiliates of the big banks is thought to be completely worthless. Yet if the banks are required to absorb most of the losses, their own balance sheets will be badly holed.

It is a measure of the incompetence of the handling of this slow-motion crisis that the banking system of the world's largest creditor country is having to pay a premium for dollar funds, and that the central bank of the world's biggest debtor country is offering its services as a lender of last resort. This borders on absurdity, not least because the real problem in Japan is one of solvency rather than liquidity.

Continuing solution

The Bank of Japan has recently been responding to the banks' dollar funding crisis by pumping liquidity into the domestic money market. Japanese banks, recently freed from foreign exchange restrictions, have then converted their yen into dollars. That is the obvious, continuing solution to any liquidity problems. Yet solutions cannot always be smoothly implemented when confidence is fragile. Estimates of Japanese banks' short term dollar liabilities range up to \$100,000bn, which gives a broad indication of the extent of the recycling challenge. It also gives grounds for unease over the possible confidence effects of the Fed's high-profile action against Daiwa.

The means of recapitalising the Japanese banking system are now partly in place. Monetary policy has been loosened, so that the banks are generating large profits on their extensive bond holdings. With business investment no longer plunging, expansionary fiscal policy will deliver a more powerful stimulus. A financial melt-down is a remote, but not impossible outcome. It would be more readily avoided if the Japanese confronted their difficult problems with a greater sense of purpose. There can be no resolution to the banking crisis without substantial resort to taxpayers' money. Until that fact is faced, there will be no worthwhile resumption of economic growth in Japan.



Bourses bite back at London

The City's pre-eminence in cross-border share dealing is under threat from continental exchanges, says Norma Cohen

In the late 1980s, the London Stock Exchange renamed itself the International Stock Exchange. The name failed to stick and after a while, it reverted to the use of its original name.

The exercise gives some idea of the ambitions of an organisation which, up until a few years ago, could rightly proclaim itself as the centre for European share dealing. But the growing muscle of the European bourses is challenging that role and raising questions over whether London can remain a centre for international share trading.

Mr Rudolf Mueller, chairman of UBS UK, a division of Union Bank of Switzerland, last week delivered a broadside at the exchange, saying it had "missed the boat" to become the central stock exchange of Europe. After five years on the board of the exchange, Mr Mueller resigned in August, a year before the end of his term. He says his resignation was precipitated by "disappointment" over its failure to seek co-operative arrangements with European stock exchanges which would have helped the London market preserve its pre-eminence in cross-border share dealing.

For years, London had dominated cross-border share trading through the Stock Exchange Automated Quotation International System (Seaq I) - an electronic bulletin board which marketmakers use to advertise large blocks of shares for purchase and sale. Such was Seaq I's role that the exchange for years cited statistics indicating that 90 per cent of all cross-border trades in Europe were executed there.

But London's competitors have fought back. They have invested significant sums on modernising their trading and settlement systems to allow low-cost trading that rivals London. Local member firms have become more willing to invest capital in buying and selling shares for their own account. All of this has lifted bourse turnover.

"Seaq I has declined and the real liquidity has tended to go back to the home markets (of European equities)," says Mr John Woodman, chief operating officer for SBC War-

burg's European equity business. As the continental European bourses have modernised, firms such as SBC Warburg have become members, he says.

Mr Lasseo Birinyi, director of Birinyi Associates, a Connecticut-based research firm, says that business is migrating back to local exchanges and brokers because investors now realise that these typically provide the best price for shares of local companies.

"There used to be a thought that if you wanted to trade, say, shares in IBM overnight, you could do it in Tokyo or London," Mr Birinyi says. "But then people realised that if you did, the intermediary executing the order was going to extract his pound of flesh."

This migration from London is not reflected in the published statistics, which show no decline in trading on Seaq I. Indeed, they appear to show the reverse: international share turnover in the 12 months to March 31 1995 was \$99bn, according to the exchange's annual report, up from \$27bn five years earlier.

However, marketmakers say this increase is the result of stock exchange regulations which require member firms to report every trade

they make on a European bourse as though it had been done in London. The result is a grossly inflated picture of the significance of international share trading on the London exchange.

It will become even easier to buy shares on other European bourses from January 1 1996, when the European Union's Investment Services Directive comes into effect. This will allow securities firms in member states to apply for "remote membership" of other EU stock exchanges without having to set up an office in the relevant country. They will thus be able to deal directly on local bourses rather than use Seaq I.

The French and German bourses have recently announced plans to build a joint trading system. "The directive will create competition between exchanges and between traditional exchanges and new electronic trading systems," predicts one Paris bourse official. "It's easier to be competitive when you join forces with another."

There have been sporadic efforts in the past to create a Europe-wide

exchange pooling liquidity on a scale to match US markets. The concept of a unified European exchange was discussed between the UK and continental bourses in 1980 and 1991. But London's proposal for a unified system under Seaq I did not appeal to its competitors.

Mr Mueller argues that the stock exchange's failure to concentrate European trading in London has undermined the opportunity to encourage global companies to seek listings there. Once large European companies understand the reality of the Seaq I data - and the relative paucity of international trading in London - they will be much less interested in seeking London stock exchange listings, he says.

Mr Michael Lawrence, the London Stock Exchange's chief executive, says that far from posing a threat to the London market, the EU directive will enhance London's stature as a financial centre. Foreign firms will naturally select it as the base for their European activities and operate their remote exchange memberships from there.

He also says the decline of Seaq I is irrelevant to London's international strategy. The stock exchange

is focusing on companies based in emerging markets which want to tap the large capital pools in developed countries. London accounts for a quarter of the capital raised worldwide in the last year through Global Depository Receipts, certificates representing overseas equity listed on another stock exchange.

"That is new business and that would not have come to us otherwise," says Mr Lawrence.

Mr Lawrence says that rather than the continental bourses, London's true competitor is the New York Stock Exchange. He argues that the London market can attract the world's largest companies, which are multinational in operations, workforce and investor base. Moreover, the world's largest institutional investors - particularly those in the US - are placing their capital outside their home borders.

"These people want a truly global market," Mr Lawrence says. "There is a clear need for a UK exchange. There is a clear need for a global exchange. But do we really need a European exchange? There is a danger that it may be neither fish nor fowl."

London, he argues, should try to serve that global market in the European time zone, rather than consolidate its position as a big European exchange.

However, European bankers such as Mr Mueller believe that Europe's equity markets offer some of the best growth opportunities as EU countries move towards funded pension schemes. Those that are already funded are moving from bonds to equities as they wake up to the higher real returns.

"The growth of the equity market in Europe is not coming from the UK," Mr Mueller argues. "Pension funds on the Continent are just beginning."

When those pools of savings begin to grow, Mr Mueller believes, the funds will no longer have to come to London to trade in non-domestic shares. Unless the London Stock Exchange can demonstrate that it is cheaper and more efficient, the savings will be dispersed around the world's markets.

Stockbrokers gain remote control

When UBS UK became a member of the Stockholm Stock Exchange earlier this year, it did not have a single trader in that city.

UBS was the first foreign firm to take advantage of new rules allowing "remote membership" of the Swedish Stock Exchange. This allows it to use a screen-based in, say, London to trade shares on the Stockholm exchange hundreds of miles away. The Investment Services Directive will require EU bourses to offer the same access to firms in other member states in less than two months.

NatWest Securities has also applied for remote membership in Sweden and intends to apply for similar status in Amsterdam and Germany as soon as

the new EU rule will allow.

Remote membership has its benefits, UBS officials say, with the firm's volume on the Stockholm exchange trading in roughly six months. UBS can execute its own trades on the exchange and need no longer pay commission to local brokers for doing business on its behalf. That means it can offer prices that compete with local brokers without having to pay the overheads of a local trading team. "That is where the new EU rules will have an effect," says the head of marketing at one UK investment bank. "It will force a shake-out of smaller local brokers."

The new directive is unlikely to encourage securities firms to

close foreign branches. Local offices are needed to win corporate finance and advisory business and to prepare research for investors on domestic companies.

Making it possible for international firms to deal directly on European exchanges at low cost is likely to reduce the market share of local brokers. But the bourses welcome the new rules since they mean more participants and more capital entering their home markets.

Officials at the Paris bourse, for instance, say they have designed the system's new architecture with precisely that in mind. "If people want to work on our system, then we will give them the plug and let them play."

OBSERVER

Any colour you like

Berlin's officials are forever singing the city's praises. But Werner Horst knows better.

Horst, a taxi driver, thought he would live up to his business by bringing over some of London's "black cabs". After all, they're in common elsewhere in Germany. And it would break the monotony of those ubiquitous pale-cream, mostly Mercedes, wagons.

Being familiar with the joys of Berliner bureaucracy, Horst went through the proper channels, in the city's transport department. In due course his application was heard. And refused.

London's black cabs are so constructed that the passenger doors cannot be opened while the vehicle is moving. It's seen in London as a safety device. In Berlin, it's regarded as very dangerous, what would happen if the driver had a heart attack, or slipped. Another reason was that it was "the wrong colour".

What you might call a Nero situation. The city's politicians can't even decide how and when to form the next government - but they sure can fiddle.

Name of the game

Perhaps a marketing survey

revealed a lack of customer loyalty. Whenever the real reason, Hilton International has thought better of its plans to move atop the site of the so-called Hanol Hilton, the prisoner-of-war camp where scores of US pilots were incarcerated during the Vietnam War.

The place is being redeveloped by a Singaporean firm, which will now have to interest someone else in checking out the accommodation while Hilton invests \$50m on a 5-star hotel in another part of the Vietnamese capital.

"We decided its historical associations might not be appropriate to the overall marketing effort," was how a Hilton official phrased it.

Son of Sir John

A touch of déjà vu as the name J. Bjelke-Petersen sets political tongues wagging once again in Australian political circles. But no, the eccentric right-wing premier of Queensland who ruled the state for 19 years before resigning, at 76, in 1987, has not made a come-back. Instead it is Sir John's 89-year-old son John who has set his cap at a federal seat in south-east Queensland, unsurprisingly on the conservative National Party ticket.

His dad, of course, never made it to Canberra - and many would claim it was the ill-fated "John-for-Canberra" campaign, designed to elevate the former premier to the prime ministership,

which marked the beginning of the end of Sir John's reign. John's mother, Lady Florence, by contrast, fared better, serving as a Queensland senator in the upper house between 1981 and 1983.

Hurdles aplenty remain for the younger Bjelke-Petersen on the road to Parliament House - not least in the shape of the two other candidates thought to be standing for National Party pre-selection in a seat which is anyway currently the preserve of the Liberal Party, the Nationals' coalition partner.

A Queensland farmer, John has said that his father would be the model for his political career - a sentiment bound to unnervise those who harbour less than fond memories of the John years.

In the family

Prince Jeff Bolikh's purchase of his latest trinket - London Jewellers Aspreys - merely represents a bit of clever housekeeping on the part of the Bolikh. The Aspreys men have long been in Brunel on a more or less year-round basis, waiting in their hotel for a call from this or that royal wife with the urge to buy some expensive little gewgaw to lighten up the tropical day.

The playboy prince has had a busy year. He's already forked out \$60m for the Hotel Bel-Air, the splendid Los Angeles pad which nicely complements the existing Bolikh collection - the Dorchester

In London, the Beverly Hills Hotel, the Palace in New York, and a couple of five star establishments in Singapore.

Back home meanwhile, in between his duties as the country's finance minister, Prince Jeff has his private company Amedeo Corporation's other interests to worry about. Amedeo oversees most of Brunel's construction contracts, many of which in turn seem to involve the building of royal palaces.

Doing nicely

Steven Bell, Deutsche Morgan Grenfell's chief economist, was returning recently from a Frankfurt conference on European Monetary Union, in which he had delivered a speech entitled *Emu chances and risks*. Judging from his past form, Bell, who describes himself as a "Euro-pragmatic", would not have skimped on the "risks" portion of the speech.

Anyway, he and his colleague Stuart Parkinson decided to break the journey in Maastricht. Spying some suitable little trinkets for the family, they found the small shop in question would not accept plastic. Lacking Dutch guilders, Bell, who has long railed against high deficit currencies, rooted around to produce some Belgian francs. Would that be acceptable? Yon bet, and the exchange rate was jolly favourable too. And so did the ERM ball Bell out in Maastricht.

The Financial Times

100 years ago

Mexican railways in accordance with precedent. The Directors of the Mexican Railway Company are careful in their half-yearly report to abstain from any specific prediction as to the future course of business.

The good points and the bad points in the outlook are mentioned in their due order: the accounts are presented and analysed with businesslike precision. In the report before us, optimism seems no higher than the remarks that "a striking and satisfactory feature in the returns of the half-year is the development of the passenger traffic," while the nearest approach to pessimism is the statement that the rate-cutting which has originated from the breaking up of the pooling agreement "was not felt in the half-year under review, but is affecting the returns in the current half-year."

This time, as hitherto, the characteristic of the report is neither optimism nor pessimism, but candour. Altogether, the gross revenue figures confirm what we have repeatedly expressed, that Mexico is entering on an era of greater prosperity than she has enjoyed in recent years.

McDonnell Douglas wins \$18bn Pentagon contract

By Christopher Parkes
in Los Angeles

An \$18bn Pentagon order for 80 military transport aircraft has given McDonnell Douglas its second important boost in two weeks. It has also raised President Bill Clinton's standing in the state he must win if he is to be re-elected next year.

The contract follows delivery of almost half of an initial 1993 order for 40 of the four-engined C-17s. It will preserve 8,700 jobs at the group's Long Beach factory, 8,000 at other southern Californian component suppliers and a similar number elsewhere in the US.

Officials at the battered flag-carrier of the Californian aerospace industry, which was recently awarded a vital \$1bn launch order for 50 of its new MD-90 twin-engine aircraft from Vahjet of Atlanta, said the deal would improve its chances of selling the once-suspect wide-bodied aircraft to foreign air forces.

The C-17 is designed for maximum flexibility in military applications. It can parachute troops

and heavy equipment into the field, and operate from short, rough runways. Potential buyers include Germany, Britain, France, Japan and Saudi Arabia.

Pentagon officials said the aircraft, which was used to ship aid after a hurricane swept the Virgin Islands this year, could be used as "system of choice" to support any US participation in keeping the peace in Bosnia.

The C-17 first flew in 1991. It failed a key examination a year later when a wing crumpled

under test conditions.

However, it was chosen by the military despite a congressional budget office report last week which said that, although it had now passed most of the required trials, the craft's longer-term durability had not been tested.

The office also pointed out a much cheaper option. It said purchase and operating costs over 25 years of a hybrid fleet comprising C-17s and a military version of Boeing's 747-400 cargo aircraft would be \$5bn less than its esti-

mate of \$36bn for the "pure" McDonnell Douglas fleet.

One compensation for Washington. Boeing's home state, is a plan to base about 50 of the new fleet, crew and ancillary operations, at an airbase near Tacoma. Lockheed Martin, in Georgia, maker of the giant C-5 transporter, has been told it may receive contracts to modify some of the aircraft's existing C-5s.

However, California, which has lost an estimated 300,000 aerospace jobs since the end of the arms race, and reported a further 12 per cent decline in defence and aerospace employment in the year to the end of last June, seems likely to benefit most.

The state has lost 22 military establishments since 1983. Mr Clinton attempted to soften the blow this summer with a plan to save many of the 14,000 jobs under the axe at the McChellair air force establishment.

The president, who has visited California 20 times in the past three years, also recently intervened with a \$300m-plus federal funding package to help the Los Angeles County health authorities out of a budgetary hole.

Kashmir elections planned to end rule from centre

By Shweta Sidwa in New Delhi

The Indian government has announced that state assembly elections will be held in Jammu and Kashmir by mid-December, after a gap of eight years.

The elections, if they are held, will bring to an end nearly six years of central government rule, imposed after separatists launched an armed campaign against security forces in 1989.

The elections are crucial for Mr F.V. Narasimha Rao, the Indian prime minister, whose ruling Congress party faces a tough general election next year.

The prime minister insists that a democratically-elected government in the state will be in a better position to control the Kashmiri insurgency, which India says is fuelled by Pakistan.

Jammu and Kashmir state, comprised of the Kashmir valley, Jammu and Ladakh, has been the cause of two wars between India and Pakistan since the subcontinent was divided in 1947.

But leaders of the All-Party Hurriyat Conference, an umbrella organisation of political and militant groups in Kashmir, rejected the prime minister's initiative as "unilateral".

"Kashmir is a disputed territory, and is the UN's longest standing dispute, so we cannot accept elections under the Indian constitution," said Mr Abdul Ghani Lone, a senior Hurriyat member.

"We have not lost 20,000 of our people in the last six years to allow a government to be imposed on us which does not respect the will of the people."

In 1949, India and Pakistan agreed with the UN that Kashmir's status would be determined by a plebiscite. But New Delhi now maintains that Kashmir is an integral part of India, and has refused Pakistan's repeated demands for an election.

The Hurriyat leaders, some of whom support independence for Kashmir, and others who support accession to Pakistan, have come together on a common platform to fight for what they call the right to self-determination.

Mr Rao's Kashmir initiative includes a package to further strengthen the special autonomy the state already enjoys and to help revive the state's economy.

He appealed to the people of the region to take part in the elections in an emotional address on Indian radio and television via satellite from Udaipur, the capital of Burkina Faso, where he was on a tour.

Mr Rao, who claims credit for solving the Punjab insurgency which raged for 10 years, is keen to hold elections in Kashmir before running for another term. "He would like to be able to say he solved the two biggest problems he inherited," an aide said.

Andreotti sent for trial over 1979 murder of journalist

By Robert Graham in Rome

Mr Giulio Andreotti, seven times prime minister of Italy, was yesterday sent for trial charged with involvement in the 1979 murder of a Rome journalist. It was the first time in recent European history that a former prime minister had been directly linked to a murder charge.

The decision by investigating magistrates in Perugia followed two years of investigations into the murder of Mr Mino Pecorelli, editor of OP, a scandal sheet. Two men have been accused of carrying out the murder.

Mr Andreotti is already standing trial in Palermo, Sicily, accused of being the political fixer in Rome for Cosa Nostra, the Sicilian mafia. "I consider all this pretty hallucinating, whether it's the mafia (charge) or the Pecorelli case," he said yesterday. "But as a citizen I place myself in the hands of the courts, hoping that in the end the truth will emerge, and possibly in a time-frame that is not biblical." The Perugia magistrates began considering his alleged involve-

ment in the Pecorelli case on October 26 and reached their decision late on Saturday.

Three men are due to stand trial alongside the former premier. They are Mr Claudio Vitalone, a magistrate and long-time Christian Democrat senator closely linked to Mr Andreotti, plus two mafia bosses, Pippo Calò and Gaetano Badalamenti.

The Perugia magistrates allege that Mr Pecorelli was using OP to publish scurrilous and highly sensitive information about Italy's political elite, leaked by accomplices in the security services. At the time of his death he appeared to be trying to blackmail Mr Andreotti with information about recycled funds.

Mr Pecorelli also reportedly knew unpublished details about the 1978 murder of Mr Aldo Moro, the prime minister kidnapped by the Red Brigades. According to Mr Tommaso Buscetta, the most important former mafia boss now co-operating with the authorities under a witness protection programme, Mr Pecorelli was murdered on the orders of Cosa Nostra as a favour to Mr Andreotti.

The murder was allegedly organised by a Rome gang linked to the Moro kidnap, but was reportedly ordered by the Salvo cousins - two leading members of Cosa Nostra closely identified with the Christian Democrat Party in Sicily. Mr Andreotti has admitted he had dealings with Mr Pecorelli but has consistently denied any knowledge of his murder. He also denied knowing the cousins.

In Mr Andreotti's Palermo trial the prosecution alleges that he knew the cousins, who were a vital prop for his faction of the Christian Democrat Party in Sicily. The Pecorelli killing is also being used as part of the Palermo evidence that Mr Andreotti was allegedly linked to the mafia. When the Palermo trial opened in September, his lawyers sought to have the proceedings moved to Perugia and have the two cases merged. The two trials will now coincide and evidence will overlap creating a complex legal situation which Mr Andreotti's lawyers will seek to exploit.

Echoes persist, Page 8

Peres pledges to pursue peace path

Continued from Page 1

Helmut Kohl and president Roman Herzog, British prime minister John Major, French president Jacques Chirac and Spanish prime minister Felipe Gonzalez. King Hussein and Egyptian president Hosni Mubarak will both make their

first visit to Israel for the solemn ceremony. Mr Yasser Arafat, the Palestinian leader, who appeared shaken when he received news of Mr Rabin's death will be noticeable by his absence. Israeli officials politely informed their most important peace partner that his presence in the disputed holy city would be unwelcome in a coun-

try where many ordinary people still see him as a "terrorist". Israel's business community also reacted with shock. Shares on the Tel Aviv stock exchange closed sharply lower, but did not drop as much as had been feared. The benchmark Mishkan index of the top 100 companies fell 3.3 per cent from 190.19 to 183.87.

India enters doldrums, Page 22

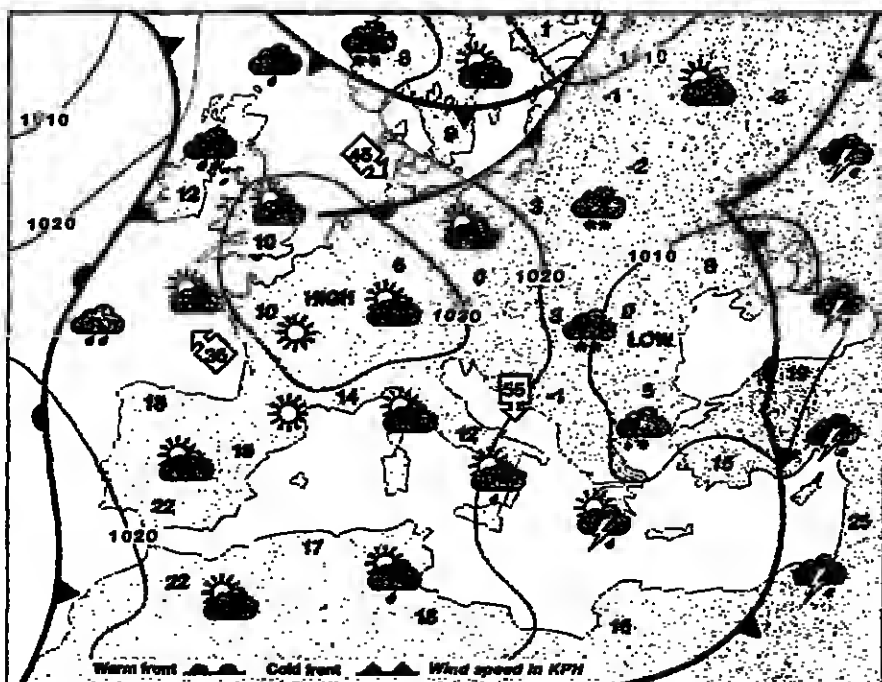
FT WEATHER GUIDE

Europe today

A strong high pressure system over France will provide cold and mostly clear conditions to the Low Countries and France. Over southern Scandinavia and northern Germany, milder air will bring some rain before much colder air returns from the north. Over eastern and south-eastern Europe, very cold air from the north will move in with snowfall expected in many areas. The northern and western British Isles will have outbreaks of rain, while the rest of the country will be settled with partly to mostly sunny skies. At the same time, very warm air over eastern Turkey will try to push into southern parts of Russia. This will lead to the development of heavy rain and thunder storms over Turkey and the Black Sea. The eastern parts of the Mediterranean will also have heavy showers.

Five-day forecast

A surge of very cold air will move from Finland to eastern Europe as warm air from eastern Turkey tries to move north-westward. This will lead to an outbreak of rain and snow showers over many parts of eastern Europe. Meanwhile Turkey, the Black Sea area and southern parts of Russia will experience heavy rain and thunder storms.



TODAY'S TEMPERATURES

Location	Temp	Location	Temp	Location	Temp	Location	Temp
Abu Dhabi	32	Algiers	18	Amsterdam	13	B. Aires	27
Accra	31	Antwerp	13	Bangkok	30	Bombay	27
Aden	31	Birmingham	13	Buenos Aires	27	Bombay	27
Algeria	18	Bombay	27	Cairo	27	Bombay	27
Amsterdam	13	Cairo	27	Chennai	27	Bombay	27
B. Aires	27	Chennai	27	Columbo	27	Bombay	27
Bombay	27	Columbo	27	Dakar	27	Bombay	27
Bombay	27	Dakar	27	Dhaka	27	Bombay	27
Bombay	27	Dhaka	27	Dubai	27	Bombay	27
Bombay	27	Dubai	27	Durban	27	Bombay	27
Bombay	27	Durban	27	Edinburgh	27	Bombay	27
Bombay	27	Edinburgh	27	Frankfurt	27	Bombay	27
Bombay	27	Frankfurt	27	Glasgow	27	Bombay	27
Bombay	27	Glasgow	27	Hong Kong	27	Bombay	27
Bombay	27	Hong Kong	27	London	27	Bombay	27
Bombay	27	London	27	Los Angeles	27	Bombay	27
Bombay	27	Los Angeles	27	Madrid	27	Bombay	27
Bombay	27	Madrid	27	Mumbai	27	Bombay	27
Bombay	27	Mumbai	27	New York	27	Bombay	27
Bombay	27	New York	27	Osaka	27	Bombay	27
Bombay	27	Osaka	27	Paris	27	Bombay	27
Bombay	27	Paris	27	Perth	27	Bombay	27
Bombay	27	Perth	27	Prague	27	Bombay	27
Bombay	27	Prague	27	Rangoon	27	Bombay	27
Bombay	27	Rangoon	27	Reykjavik	27	Bombay	27
Bombay	27	Reykjavik	27	Rio	27	Bombay	27
Bombay	27	Rio	27	Rome	27	Bombay	27
Bombay	27	Rome	27	S. Francisco	27	Bombay	27
Bombay	27	S. Francisco	27	Seoul	27	Bombay	27
Bombay	27	Seoul	27	Singapore	27	Bombay	27
Bombay	27	Singapore	27	Stockholm	27	Bombay	27
Bombay	27	Stockholm	27	Sydney	27	Bombay	27
Bombay	27	Sydney	27	Taipei	27	Bombay	27
Bombay	27	Taipei	27	Tel Aviv	27	Bombay	27
Bombay	27	Tel Aviv	27	Tokyo	27	Bombay	27
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THE LEX COLUMN

Tackling takeovers

There is no shortage of examples to demonstrate the inadequacy of takeover regulations in most European stock markets. Italy's comparatively new takeover law has proven sufficiently impenetrable that even Mediobanca could not work out if it had to make any offer for Ferruzzi Finanziaria. In Sweden, minority shareholders have had a rough ride over Hasselborg, and in France they fired little better in the CMB takeover.

This year, Germany, the Netherlands and Switzerland have all revised their takeover regulations, but this appears to be little more than a sop to international investor concerns. In continental Europe, politics and business are often inextricably combined. Opaque takeover regulations can prove a useful means by which politicians can dictate industrial development. Takeovers are not vote winners, since they can result in foreign control and redundancies. Moreover, the argument that a takeover culture weeds out inefficient management is countered, with some justification, by the argument that it also fosters short-term management attitudes.

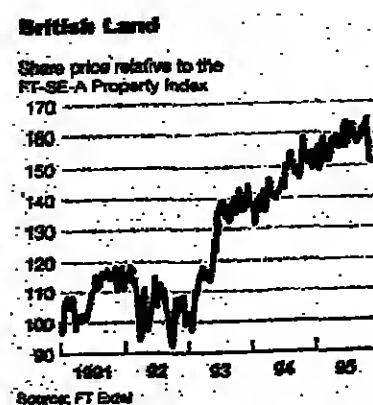
There seems to be little pressure for change. KLM, the Dutch airline, recently pointed out the inequities of poison pill defences at Northwest Airlines, but it has not extended criticism to the Netherlands, where such protection is standard practice. However, there is a strong argument for a gradual push towards standardised trigger levels for takeovers, greater transparency, and equal treatment of minority shareholders when there is a change of control. Vest privatisation leaves are currently being offered to international investors. The response will be enthusiastic if they are concerned over the regulatory environment, which would mean that governments could end up selling off their family silver on the cheap.

UK share buy-backs
Britain's regional electricity companies will soon be handing yet more cash back to shareholders, and as UK corporate cashflows rise, they are unlikely to be alone. This is an appealing prospect for investors, not least because of the tax benefits. But they should keep an eye on this month's Budget.

For the company, the tax system is neutral between paying out cash through special dividends or buying back shares. But that does not mean the tax system does not interfere in the choice. Tax exempt institutions receive large tax credits when they take up a share buy-back, because often a large part of the cash they receive is treated as income. Unlike a special dividend, higher-rate tax payers can choose not to participate in a buy-back and so avoid additional tax. Government does not like buy-backs.

Pharmaceuticals

After \$70bn of deals, it is hard to believe there are any drug companies left to take over. Most middle ranking groups, from Wellcome and Fisons to American Cyanamid and Syntex have been swallowed up. But the case for further consolidation remains compelling. Pharmaceuticals is still a fragmented industry, where even the biggest participant - Glaxo Wellcome - has a mere 6 per cent market share. And the arithmetic shows that deals can unlock a great deal of value. Sweden's Pharmacia and



Upjohn of the US have seen their share prices rise by more than 40 per cent since their merger was first rumoured in August. The combined value of the company has increased from \$18bn to over \$18bn.

While that looks unsustainable at first sight, it can be justified by the \$600m of expected annual cost savings. Very crudely, on a 80 per cent tax rate and a multiple of 15 times earnings, those savings are worth \$5bn. The improved product pipeline and wider distribution of the enlarged group should also accelerate profits growth.

After a surfeit of deals over the past two years, takeover activity may now abate or move to the smaller companies for a time. But the search for ever greater economies of scale and more new products will propel the industry giants back into the game before long.

for the same reason institutional shareholders do: they bring in less tax than special dividends. Companies planning buy-backs will be concerned that the chancellor may plan to do something about it in his Budget. Levelling the playing-field - for instance by making buy-backs apply to all shareholders in a similar way to a rights issue - would help him raise much-needed cash.

This would be a pity, since it would reduce companies' flexibility. Tax-exempt institutions would doubtless mean about having to share the benefits of share buy-backs with other shareholders. But they would continue to receive tax credits. So long as this continues, they will still be keen that surplus cash should be paid out, not hoarded.

London Property

A year ago vultures were circling over Stanhope, the property developer which owned a half share in the successful Broadgate and Ludgate office developments in the City of London. At the time, Stanhope was close to being forced into receivership by its banks. Top City rents were forecast to rise by as much as two-thirds by the end of 1996. It was no surprise that British Land, the most effective opportunist in the UK property market, emerged as the eventual buyer.

British Land is now preparing to buy the second half of Broadgate, this time from the receiver to Rosehaugh, Stanhope's former development partner. The worry is that rental forecasts, which looked demanding a year ago, now look ambitious indeed. City rents have only edged higher over the intervening twelve months, partly due to disappointing demand for offices from the financial sector. Now under new ownership, Canary Wharf in London's docklands threatens to expand the supply of modern offices available to potential tenants at far lower rents than the City can offer.

Against this background, the chances are that prime City rents will settle not far above £40 per sq ft, rather than breaching £50 per sq ft as the bulls of the market believed. If property yields dip lower, perhaps in response to base rates or bond yields, City property owners such as British Land could still see a handsome return on their investments. With the prospect of only moderate rental growth for support, though, City property values would equally be exposed to an upward shift in yields.

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Monday November 6 1995

MARKETS THIS WEEK



**JOHN PLENDER:
GLOBAL INVESTOR**
The emergence of negative nominal rates of interest is a rare and somewhat freakish event. In its latest manifestation in Japan, the phenomenon is doubly freakish, because the country has seen it happen twice in the space of less than 10 years. Page 21



**STEPHANIE PLENDER:
ECONOMICS NOTEBOOK**
Do countries sustain economic growth by limiting the size of government, or do they limit the size of government by sustaining economic growth? Three years ago, as governor of Hong Kong, Mr Chris Patten believed the first proposition. Page 21

BONDS:

All financial centres swing from relaxation to restriction and back as if there were a "regulatory pendulum". When the shock is as great as the collapse of Barings, and the financial market as young as Singapore, the oscillation is all the more violent. Page 24

EQUITIES:

Institutional investors are showing strong interest in the privatisation of Eni, the Italian oil and gas company, but developments in the oil industry could prevent that interest from turning into equally healthy orders. Page 23

EMERGING MARKETS:

For each of India's last six general elections the market has been subdued for the six months before the poll, then relatively buoyant for the six months afterwards. Page 22

CURRENCIES:

The talks between US President Bill Clinton and the Republican leadership in Congress over the extension of the federal debt ceiling are likely to be the focus of attention this week. Page 22

COMMODITIES:

With world stocks of grain at a 20-year low and prices close to historic highs, the Agri-Europe conference in Brussels this week is likely to attract considerable interest. Page 21

INTERNATIONAL COMPANIES:

Texas Utilities of the US is to buy Eastern Energy, one of the five electricity distributors being sold by Victoria's state government, for \$4.2bn (\$1.56bn). Page 20

UK COMPANIES:

Sun Alliance, the composite insurer, will this week announce an expansion of its continental European telephone-based operations with the acquisition of the Teltit direct motor insurer owned by Suez, the French financial and industrial holding group. Page 20

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Daiwa considers Sumitomo merger

By Gerard Baker in Tokyo

Daiwa Bank, expelled last week from the US by financial regulators, is considering a merger which could create one of the largest banks in the world. Sumitomo Bank, one of Japan's largest financial institutions, is understood to be the likeliest candidate for such a tie-up.

The merger, which could occur within the next year, would be a response by Daiwa to the near-fatal damage inflicted on its global status by draconian official punishments in the US and Japan.

Last Thursday, Daiwa was ordered to close its US operations for "unsafe and unsound" banking practices in the wake of a \$1.1bn loss by a bond dealer at its New York branch. It was also indicted on 24 criminal charges, including fraud, in the

US. On Friday the Japanese finance ministry, citing its own investigation, ordered Daiwa to scale down much of the rest of its global operations.

Japanese newspapers at the weekend quoted officials at both Daiwa and Sumitomo suggesting that a merger was under consideration. "It will not happen right away, but if both banks feel that way with the passage of time, it is not impossible in the future," said Mr Takashi Kaiho, president of Daiwa.

Mr Toshio Morikawa, president of Sumitomo, added: "We haven't talked about a merger. But in the process of furthering our assistance, if an opportunity should arise, it is likely that we would talk about it at that time."

On Friday, Daiwa announced that it had enlisted the assistance of Sumitomo in the

disposal of its US assets. Both banks are based in Osaka, in western Japan, and have a good business relationship.

A merger between the two would create a bank to rival Tokyo Mitsubishi Bank, which will be formed next year by the merger of two of the country's other leading financial institutions, Bank of Tokyo and Mitsubishi Bank. A Sumitomo/Daiwa alliance would have assets of more than ¥70,000bn, making it about the same size as Tokyo Mitsubishi.

For Daiwa, a merger seems the inevitable response to its current predicament. In addition to its closure in the US it said last week it would scale down its European operations and some of its Asian branches. The bank plans a global restructuring that would reduce its workforce by more than 25 per cent. Its international humiliation

has cost it customers around the world, and there are doubts about its long-term viability as an independent entity.

Like all leading Japanese banks, Sumitomo has been forced to reconsider its strategy since the Tokyo Mitsubishi Bank plans were revealed last March. Last year, it signalled an intention to write off its problem loans quickly by reporting the first ever pre-tax loss by a Japanese bank. Its improving profitability this year suggests it could write off the remainder of its bad debts within a year or two.

But at least one other bank might also be considering an approach to the stricken Daiwa. Fuji Bank, another commercial bank, is understood to have expressed interest in a Daiwa merger before the fiasco in New York.

Editorial Comment, Page 17

Spanish to sell 25% stake in Argentaria

By Tom Burns in Madrid

The Spanish government took a further step in its privatisation policy yesterday with a decision to halve its 50 per cent stake in Argentaria, the third-biggest domestic bank in terms of assets. The disposal, which is likely to take place in the first quarter of next year, would raise Pta35.7bn (\$1.1bn) at current market prices.

The sale is expected to be similar to the Argentaria I and II global offerings, in May and November 1993, which each placed 25 per cent of the state's equity on the international markets. Both offerings were co-ordinated by Morgan Stanley, the US bank, and evenly matched institutional and domestic retail tranches.

The development could renew speculation that Argentaria, which is at present 22 per cent owned by foreign institutions and is the leader in the domestic institutional lending and mortgage markets, will be the object of a bid by another Spanish bank. Last week, Banco Bilbao Vizcaya (BBV) denied it was considering the purchase of Argentaria equity and the finance minister, Mr Pedro Solbes, said he would block Argentaria's takeover.

The Argentaria III decision had been widely expected as the government is intent on using revenue from disposals to cut its public deficit.

However, this third disposal is unlikely to repeat 1993, when the two global offerings were strongly oversubscribed both on the domestic and international markets.

Argentaria shares have slid since the Argentaria II offer price of Pta6,005 and over the past year they have underperformed the Madrid market by 8 per cent.

The share price, which had a year low in March of Pta3,645 and a high of Pta4,995, closed on Friday at Pta4,260, 1.73 per cent down on its opening of Pta4,335.

The banking group was strongly penalised last year by trading losses and squeezed margins, which brought its pre-tax profits down 9.8 per cent to Pta94.2bn. It has nevertheless been climbing out of losses this year and posted nine-month pre-tax profits of Pta82.4bn, 2.7 per cent down on the same period last year.

Bai issue, Page 23

Oil groups' ageing European refineries are under increasing pressure, reports Robert Corzine

Problems of surplus capacity in the pipeline

Speculation is growing that some big international oil companies may act soon to help correct chronic overcapacity in oil refineries worldwide.

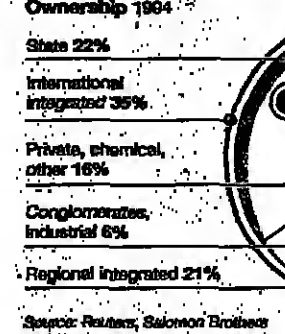
Although the problem of surplus capacity extends to the US, the focus of attention is Europe, where a number of older refineries are seen as being at risk of closure because of changing environmental rules and growing competition.

Many executives say poor European refining margins may come under renewed pressure next year, when large amounts of new capacity come on stream in Asia. Low freight rates for refined products mean that capacity changes in one region can have a significant impact elsewhere.

A recent study of the European sector by Salomon Brothers, the US investment bank, identified about 11 European refineries with a total capacity of about 800,000 barrels a day - about 5 per cent of the sector - as running a "high" risk of closure over the next few years.

Evidence that some oil companies are contemplating action emerged last week. On Thursday British Petroleum announced the sale of its Marcus Hook refinery in the US to Tosco, an independent refiner. The sale was the first step "in a programme to reposition BP's international refinery network", according to Mr Rolf Stomberg, head of BP Oil, the group's downstream arm.

Europe's refineries



Source: Reuters, Salomon Brothers

ings, chairman of Shell Transport and Trading, warned that the international refinery business has still to come fully to terms with all the implications of sustained overcapacity.

Analysts say BP and Shell could be in the forefront of any industry-wide restructuring, with Europe the most likely setting for closures or consolidation.

BP's sale of the Marcus Hook refinery was evidence that the company has made the re-organisation of its downstream sector a priority.

BP's decision to review its refining assets is linked to the deteriorating economics of the industry. The best refineries are generally profitable, but they need regular upgrading at a cost of hundreds of millions of dollars. Given current low refining margins any investment in refineries with only average performance is increasingly being questioned. "Every time you make a major investment in an average refinery you have to ask yourself should I get out," says one industry executive.

The Salomon Brothers study concluded that internal rates of return for most refinery upgrading projects in Europe are negative when calculated over 10 years.

The rates improve somewhat over a longer period, but Mr Jeremy Hudson, an energy analyst at Salomon's London office, says they are still "diabolically low".

He says European refiners also face an "open-ended commitment to new spending" because of changing environmental legislation and new product specifications.

Concawe, the European refiners' trade group, has estimated that \$25bn-\$30bn may have to be invested in the industry to meet existing European Union directives and the draft EU directive on sulphur in liquid fuels, which is under review.

But past predictions that a combination of stricter environmental rules and growing competition would result in refinery closures have proved wrong.

One senior European oil industry executive last week said there was an "urgent" need for refinery closures. But he conceded that companies are often reluctant to act.

Unilateral closures are often seen as benefiting rivals. In addition, a fifth of Europe's refining capacity is owned by governments, most of which are

unlikely to order the closure of politically-sensitive plants.

There is little prospect that companies will be able to sell their unwanted refineries in Europe, as BP did last week with Marcus Hook in the US. "The market appears totally dry," said one executive last week. "I would be surprised to see any sales at the moment."

BP is said to favour collaboration with other companies as a possible way forward. If two refineries are struggling then the companies would agree to close one and pool their resources in the other.

But proposed refinery closures are rarely as simple as that. Finding a solution that matches the strategic and commercial needs of two companies can be difficult. Local communities in both the US and Europe have often successfully lobbied oil companies to keep refineries open. Strict European labour laws are also a complicating factor, say executives.

In addition exit costs can be high, although environmental clean-up costs in Europe are generally not as onerous as those in the US.

Those parts of Europe with the biggest overcapacity problem, such as the Mediterranean, also

present the biggest political problems for oil companies. "Nothing is easy in France," says one European executive. "You can forget about closing anything in Greece and the Italians have spent a fortune on their refineries."

But even so most industry observers expect to see some rationalisation over the coming year. BP is expected to make an announcement early next year about its plans in Europe. The remarks last week by Mr Jennings have prompted speculation that Shell may also be preparing to act. The company has a number of relatively simple refineries, some in France, that would be costly to upgrade. Observers say another possible candidate for closure is the Shell Haven refinery in the UK.

The two companies are unlikely to be alone, however. Elf Aquitaine, the French oil group, is also frequently mentioned as contemplating closures, although any large-scale restructuring in Europe is expected to involve a number of companies.

Industry executives say that in such an open and integrated market, refinery closures in any part of the world would have a positive impact on the profitability of the European industry.

This week: Company news

GERMAN CHEMICALS

Outlook uncertain now that the party is over

The three German chemical companies, Hoechst, BASF and Bayer, will unveil third-quarter results this week that should reveal a slowdown in the industry, but may not.

The German stock market last week awoke to the fact that the party was over in the sector, with chemical stocks losing ground. But the companies' quarterly results do not always provide an immediate picture of the health of underlying business, with exceptional charges frequently incorporated without explanation.

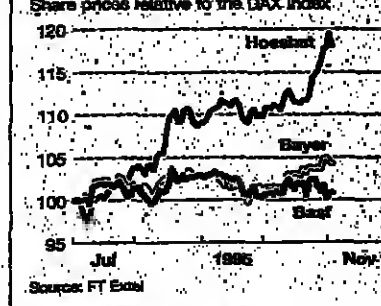
In the case of Hoechst, which has not indicated how it intends to account for its acquisition of the US pharmaceutical business Marion Merrell Dow, the outlook is very uncertain. Both Hoechst and BASF will have suffered from falling prices and weakening demand for their core bulk chemicals, plastics and synthetic fibres, although Hoechst is likely to be the least affected of the two. Assuming the company chooses to amortise the MMD acquisition but does not make any restructuring charges this quarter, it could be looking at pre-tax profits of about DM750m (\$539.5m), up 25 per cent on last year.

BASF is likely to post pre-tax profits of around DM850m, which represents a jump of 80 per cent on last year, but a contraction when compared with the first and second quarters.

Bayer could still make gains, however, with pre-tax profits in the region of DM900m. Many of the company's industrial chemicals are still benefiting from price rises.

"We will not be told what charges and gains have been included in these figures until some months after the results," says Mr Tony Cox, European chemicals analyst with Kleinwort Benson in London. "But, providing there are no funnies, we should see the crash in bulk chemical prices reflected."

German chemicals



Source: FT Econ

UK WATER UTILITIES

Market looks for sustained growth

The interim reporting season for UK water companies is under way, with more good news for shareholders likely to emerge over the next few weeks.

Following the lead of Thames Water last week, both Anglian Water and Northumbrian Water are likely to post big dividend increases when they report tomorrow and Thursday respectively. The market expects the sector as a whole to report increases on average of between 10 and 12 per cent.

The interim payouts should reinforce the market's view that the water sector is more than confident it will be able to achieve double digit dividend growth to the end of the decade, in spite of the harsher pricing regime now in place.

The difficulty will be how to convey that news in an increasingly critical political environment and under the threat of a windfall tax.

The dilemma is greatest for the likes of Northumbrian, which is facing a possible bid from Lyonnaise des Eaux. Northumbrian is expected to announce interim profits of about £56m (\$88.5m), compared with £46m last time, and a dividend increase of anything from 13 to 20 per cent.

Anglian Water is likely to report pre-tax profits of between £120m and £125m, against last year's £121m. The dividend is forecast to rise by between 10 and 12 per cent. It is not expected to pass through the entire benefit of this summer's 10 per cent share buy-back.

OTHER COMPANIES

Astra confident despite US setback

Astra, the high-flying Swedish pharmaceuticals group, which reports nine-month figures tomorrow, should maintain its progress, with analysts expecting profits of about SKr3.3bn (\$1.4m), up 30 per cent from a year ago.

The performance of Lescot, the group's blockbuster anti-ulcer drug, will be in focus after evidence that the drug's US sales flagged in the third quarter.

■ **Stora:** The big Swedish forestry company will ride the dramatic upswing in pulp and paper prices when it reports its nine-month figures today. Analysts are looking for profits to triple from SKr2.04bn to about SKr6.2bn (\$940m). Investors, worried by the slowing pace of price rises, await the group's analysis of market trends.

■ **British Airways:** Pre-tax profits are expected to be between £410m and £420m (\$647.8m-\$663.6m) in today's half-year results, compared with £341m last time. Questions will focus on the future of the UK airline's relations with USAir, in which it holds a 24.6 per cent stake. USAir is in talks with United Airlines and American Airlines, which could lead to a takeover. If either takes over USAir, BA might have to find a new transatlantic partner.

■ **Swiss Bank Corp:** Mr Georges Blum, chief executive, said in an interview two weeks ago that the group's performance in the third quarter had

continued along the very strong trend established in the first half. Net income in the first half was up 23.3 per cent to SFr540m (\$471.8m). Further details, although not a full profit and loss statement for the nine months, will be published tomorrow.

■ **KNP BT:** The Dutch paper, packaging and graphic systems group is expected on Wednesday to report a near-doubling in third-quarter net profits compared with FT 80m (\$55.4m) in the same quarter of 1994. Earnings have recovered rapidly so far in 1995, aided mainly by better results in coated paper and in the distribution of graphic paper, graphic equipment and office products. At the same time, the sharp decline in waste paper prices since the summer is forecast to lead to improved margins in the packaging sector in the third and fourth quarters.

■ **CS Holding:** Mr Rainer Gut, chairman, said in his interim report that he expected "good" results in the full year, and he is expected to confirm that forecast in a nine-month statement on Friday. The group has to leap over a SFr640m extraordinary gain last December on the sale of 20 per cent of its Credit Suisse Financial Products subsidiary to better last year's SFr1.33bn (\$1.17bn) net income. But Credit Suisse, the group's flagship bank which accounted for three quarters of last year's profits, appears to be doing its part. Mr Josef Ackermann, chief executive, said two weeks ago that the bank's trading profits in the first nine months were equal to those in the whole of last year.

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NKE

NLG 20,500,000

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THE POSTS AND TELECOMMUNICATIONS CORPORATION, ZIMBABWE

EXPORT FINANCE FACILITY UNDER NCM COVER AND INTEREST MATCHING SUPPORT FROM THE DUTCH MINISTRY OF ECONOMIC AFFAIRS

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August 1995

INTERNATIONAL COMPANIES AND FINANCE

Sun Micro launches 'Ultra' computer range

By Louise Kehoe in San Francisco

Sun Microsystems will tomorrow launch a new range of computers designed for multimedia applications on the Internet and corporate networks.

"UltraComputers" will bring three-dimensional "virtual worlds", music and video to desktop computers at about half the price of today's specialised 3D workstations, the company claims.

"UltraComputers will let you cruise the information superhighway in style," said Mr Scott McNealy, Sun chairman and chief executive.

Network computing will be the next big change in computer technology, equivalent to the move from mainframes and minicomputers to personal computing, Sun maintains.

"Eleven per cent of the population of North America is using the Internet. Every business I visit today is thinking about either using the Internet or building 'Intranets' [internal networks using Internet technology],"

said Mr Ed Zander, president of Sun's computer products division.

Sun currently supplies about 60 per cent of the computer servers linked to the Internet and has a 36 per cent share of the global market for workstations, according to Dataquest, a US market research group.

However, its leadership has recently been challenged by competitors such as Hewlett-Packard, Digital Equipment, Silicon Graphics and IBM offering higher speed workstations.

The new "Ultra" range, based on a faster version of Sun's Sparc microprocessor, will leapfrog HP, IBM and Silicon Graphics and come close to the speed of Digital Equipment's fastest Alpha workstations, industry analysts said.

The new chips could also help fend off PC manufacturers such as Compaq Computer, which plans a new generation of PCs, aimed at design, scientific and financial analysis, based on Intel's high performance microprocessor, Pentium Pro.

Australian buy for Texas Utilities

By Nikki Tait in Sydney

Texas Utilities of the US is to buy Eastern Energy, one of the five electricity distributors being sold off by Victoria's state government, for \$2.1bn (US\$1.5bn). A capital payment of \$2.08bn will be followed by franchise fees of \$47m over the next three years.

This is the third electricity distribution company sold by the Victorian government this year, and the highest price ever realised in any of the state's privatisations.

All electricity distributor sales to date have seen US utilities among the winning bidders, although this is the first asset sold entirely to foreign hands.

United Energy, the first to be auctioned, was bought by a consortium of Australian institutions and Kansas City-based Utility Corp. for \$1.55bn.

The second was Solaris, where a 50:50 partnership between a subsidiary of General Public Utilities of the US and Australia's AGL paid \$360m.

In the auction for Eastern Energy, Texas Utilities was thought to be up against two other US power companies - Pacific Gas and Electric and PacifiCorp. A fourth potential buyer, a consortium led by the Australian Wesfarmers

group, withdrew last week. Eastern Energy supplies power to 470,000 customers. Its geographical region - 80,000 sq km stretching from Melbourne's eastern suburbs to the New South Wales border - is larger than those of United Energy or Solaris, both of which are focused on areas of Melbourne.

Eastern Energy last week reported profit after tax of \$448.7m in its first year of operation, and total revenue of \$588.6m.

The sale of the distribution companies is part of an ambitious plan by the Victorian state government to privatise the

entire state electricity industry. It plans to use the proceeds to pay down the \$30bn debt which built up under the previous Labor administration.

With this in mind, the former state-owned State Electricity Commission of Victoria was "corporatised" a couple of years ago. Distribution was split between five separate entities, each with a different regional franchise.

Proceeds from the distributor sales to date have been well in excess of initial expectations, helping to defuse some of the local criticism over the sales.

Swiss Re sees improvement for year

By Ian Rodger in Zurich

Swiss Reinsurance, one of the world's largest reinsurers, expects a significantly higher net profit in 1995 than the SF709m (\$623m) earned in 1994 excluding extraordinary gains.

Mr Lukas Mühlemann, chief executive, said return on equity would "certainly" be in double figures, compared with the 8.7 per cent return achieved last year, although it would not reach the group's 15 per cent target.

Mr Mühlemann, speaking to

journalists on the publication of Swiss Re's final accounts for 1994, said the group was also planning to seek a New York Stock Exchange listing for its shares by 1996.

He also pleaded with shareholders to attend or be represented at the annual meeting on November 24. The group aims to unify its share structure and remove all ownership and voting restrictions as part of a policy of greater transparency introduced last year.

But the company's bylaws stipulate that two-thirds of the enfranchised capital must be represented in such votes.

"Only once since the second world war have we had more than 50 per cent represented," he said.

Swiss Re's final 1994 accounts showed only slight deviations from the preliminary figures published in June when net income before extraordinary items was estimated at SF704m compared with a restated SF545m in 1993. Gross premium income totalled SF12.95bn, slightly

less than the SF13.3bn estimated in June and the SF12.45bn earned in 1994.

Mr Mühlemann said profit improvement in the current year would come from a lower combined ratio (claims and expenses) and a higher return on investments.

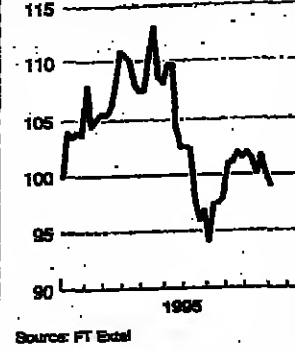
He made clear that Swiss Re's 15 per cent stake in a consortium formed by Deutsche Bank in September to offer DM3.06bn for Deutsche Postbank was not a strategic move but an investment opportunity.

NEWS DIGEST

NAB completes US bank purchase

National Australia Bank

Share price relative to the All Ordinaries Index



Source: FT Total

National Australia Bank, the largest and strongest of Australia's four national banks, formally completed its US\$1.55bn purchase of Michigan National, the US commercial bank. The deal was first announced in February, but the Australian buyer has since been working through the regulatory process in the US. The bank has already diversified into the UK and New Zealand banking markets through acquisitions, but this is its first foray into the US. As a result of the purchase, about 11 per cent of NAB's assets will be domiciled in the US. Michigan National's figures will be consolidated into NAB's results from November 2, and the buyer said yesterday that the deal should be earnings positive in 1995-96.

Nikki Tait, Sydney

Sons of Gwalia posts 47% rise

Sons of Gwalia, the Western Australian goldminer, told shareholders at its annual meeting that operating profits after tax in the three months to end-September totalled A\$7.65m (US\$5.1m), a 47 per cent increase over the same period in the previous year. It said that gold production in the first quarter has reached 68,106 ounces, and the realised price had been A\$650 per ounce.

For the year overall, it expects a 55 per cent increase in gold production to 280,000 ounces. It forecast net earnings after tax of A\$30m, up from A\$27.1m in 1994-95.

Nikki Tait

SPH ahead at S\$425.9m

Singapore Press Holdings (SPH), the island republic's largest publishing group, has announced pre-tax profits for the year ending August 31 of S\$425.9m (US\$301.8m), a 5.7 per cent rise on the previous year's figure. Group turnover was up 8.5 per cent at S\$633m, with advertising revenue up 10.4 per cent and circulation revenue up 9.2 per cent. Group investment income of S\$88m was 4.6 per cent lower than the previous year, due to what the board described as less favourable stock market conditions. The final dividend was unchanged at 20 cents.

Separately SPH announced it has bought the Tamil Murasu, Singapore's Tamil language newspaper, for S\$500,000.

Kieran Cooke, Kuala Lumpur

Murdoch eyed Time Warner

Mr Rupert Murdoch, the media magnate, considered spearheading a more than \$40bn bid to buy the Time Warner communications empire but abandoned the idea in late October, the New Yorker Magazine reported on Sunday. If Murdoch made such a bid, it could have led to the world's largest takeover, surpassing the more than \$25bn paid by Kohlberg Kravis Roberts in 1989 to buy RJR Nabisco.

In a profile on Murdoch, the magazine's media correspondent Mr Ken Auletta said: "The impediment, two participants say, was not finding partners but figuring out how to avoid the steep capital gains taxes on the sale of Time Warner's various pieces."

Reuters, New York

Trying to share in the Internet's success

Investors are scrambling to buy stock with ties to the new craze, reports Lisa Bransten

Those who thought the rush to grab a piece of the Internet ended in early August after Netscape Communications closed its first day of trading at nearly double its \$28 offer price were proved wrong last week as shares in the maker of Internet software rose to \$95.

One reason may be that Netscape joined a spate of Internet-related companies which surprised analysts by reporting stronger-than-expected earnings. But Mr Lou Kerner, an analyst at Merrill Lynch says the Internet craze is not about earnings or fundamentals. "We're seeing indiscriminate investing here," he says.

Netscape's "surprising"

profit was 4 cents a share, compared with the loss of 5 cents a share analysts expected, and it was the 18-month-old company's first ever profit - making for a p/e ratio of 95, assuming annualised profits.

Shares in Spyglass, Netscape's closest competitor, rose 73 per cent last week to \$72 after it registered net income of 20 cents a share, and UUNET, which provides Internet access, has risen 49 per cent since it recorded earnings of 2 cents a share.

Instead, the enthusiasm is due to a scarcity of shares in the Internet and investors hope will turn out to be the next AT&T. But nobody knows which of the 40 or so companies seen as having ties to the

Internet will be the one that figures out the best way to profit from it.

Ms Lisa Buyer, a technology analyst at T. Rowe Price, the mutual fund group, said invest-

mentors have been caught off guard by the speed with which the Internet has become an important part of business communication.

"Investors have been caught off guard by the speed with which the Internet has become an important part of business communication"

tors have been caught off guard by the speed with which the Internet has become an important part of business communication. That, together with an Internet trade show in Boston, sent investors chasing a limited number of shares in a

small group of Internet-related companies. Of Netscape's 23.1m shares, for example, only 5.8m trade on the open market.

"None of us know how much these businesses could be

worth and the people who hold them aren't selling," says Ms Buyer.

Also pushing up share prices was activity in a 24-week-old index of 97 Internet-related companies launched by the American Stock Exchange and

Interactive Week magazine. The index has risen 14 per cent since its inception on October 18.

Mr Tom Peters, who makes a market in options on the index for the Susquehanna Investment Group, said even he got caught not holding enough of the shares to meet the demands of investors. "We contributed to the up move because we had gotten short and we had to go out and buy stock," he said.

The bad thing is that it makes it hard for us to get stocks, but the good thing is that it makes it impossible for everyone else."

But there are signs that the skyrocketing prices are not sustainable. Investors have taken out an average of 300



Jim Clark, the chairman of Netscape Communications

contracts a day on the Internet index since trading began, and most of those were bets that it would rise, Mr Peters says. On Friday, however, the volume jumped to about 750 contracts - and they were about evenly divided between upward and downward bets.

COMPANY NEWS: UK

Sun Alliance to acquire French motor insurer

By Ralph Atkins, Insurance Correspondent

Sun Alliance, the composite insurer, will this week announce an expansion of its continental European telephone-based operations with the acquisition of a French direct motor insurer owned by Suez, the financial and industrial holding group.

Suez has long been seeking a buyer for its Telit operation, which was left behind when Commercial Union, another UK-based composite insurer, acquired Groupe Victoire from Suez last year. CU already had a direct selling capability in France. The sale price is not being disclosed but is regarded as immaterial for both Suez and Sun Alliance.

The dominance of agents tied to large insurance companies in France has made it a tough market for new telephone-based insurers. Telit, set up

two years ago, is loss-making and has only about 28,000 policyholders and an expected premium income this year of about \$2m. But Sun Alliance believes its purchase will save three years' development work.

Mr Roger Taylor, Sun Alliance's chief executive, has set continental Europe as a target market for expansion and is also focusing resources on developing telephone-based sales techniques. The group's French move follows the launch of a similar operation in Germany last month. Sun Alliance already sells commercial insurance in France.

Tellit, which is based in Rouen, sells mostly motor insurance across France. It has already has plans to develop into health and household insurance. Sun Alliance sells a range of personal insurance by telephone in the UK and a move into selling life insurance directly in France is possible.

GlycoSystems appoints Raab

By Motoko Rich

Mr Kirk Raab, who was forced to resign in July as president and chief executive of Genentech, the US biotechnology company, has been appointed non-executive chairman of Oxford GlycoSystems, a private UK biopharmaceutical group.

He will assist with financing, collaborative partnerships and its eventual flotation in New York or London.

Oxford GlycoSystems, a spin-off from Oxford University, is investigating the therapeutic potential of carbohydrate-based pharmaceutical products. Dr Dale Pfost, president and chief executive, said: "We see ourselves leading the field of carbohydrate research in the same way that Genentech led genetic engineering."

The group has raised \$40m from private shareholders.

More than 50 per cent of its investors are based in the US. It has revenues of about \$5m a year from sales of analytical instruments.

It has not disclosed the fee it will pay Mr Raab for his services, likely to be only three months. He will also have significant share options in the company.

He left Genentech following the disclosure that he had solicited a \$2m personal loan guarantee from Roche, the Swiss pharmaceutical giant which owns 79.9 per cent of Genentech, while he and Roche were negotiating the \$3bn-plus sale of the rest of the company.

Mr Raab, 60, is also chairman of Shaman, a Nasdaq-listed company that develops products based on substances found in rain forests. He said he would shortly announce another chairmanship, likely to be of a private company.

Hydro interested in power supply

By Michael Smith

Hydro-Electric, the Scottish electricity company, is investigating the possibility of buying a power supply business from a regional electricity company in England or Wales.

The disclosure will increase speculation about further restructuring in a sector which has seen bids for six of the 12 rees in the last four months.

The City expects further bids, possibly this week, following the decision last Thursday by Mr Ian Lang, trade and industry secretary, to wave through a bid by North West Water for Manweb without referral to the Monopolies and Mergers Commission.

Hydro is thought unlikely to make a full bid for an ree, even though fellow generation group Scottish Power, National Power and PowerGen have done so.

As an alternative, it is considering buying a supply business, essentially the trading arm of a regional electricity company which buys power from generators and sells it to consumers.

Since privatisation five years ago, supply is run separately from the distribution arms. Distribution is - and will remain - a monopoly business, whereas supply is being opened to competition in 1998. Rees make the majority of their profits from distribution and Hydro believes some companies may prefer to concentrate exclusively on this in future.

CORRECTION

Fivemere offer

Due to a technical error it was incorrectly reported on Monday October 23 that Network Express of the US had offered more than \$23m for Fivemere of the UK. Network Express has actually offered \$10m in cash and 475,000 shares for the British data networking specialist. The estimated value of the deal is therefore more than \$2m.

Victrex to float next month

By Patrick Haverson

Victrex, the high-performance plastics manufacturer spun off from ICI in a 1993 management buy-out, plans to float on the stock market next month.

The Lancashire-based company, which makes high-temperature plastics for the motor, aerospace, industrial and electronics industries, is expected to have a market capitalisation of between £100m and £120m.

Victrex has grown rapidly since the buy-out and its management believes a new source of funds is needed to maintain such growth. Profits, which were £3.5m on turnover of £17m at the time of the mbo,

reached £10.2m on £31.3m turnover in the year to September.

Mr Peter Rowley, chairman, said yesterday: "We have a very good product and position in the world market and we have been growing like Topsy, but we need to do two things to keep it going. One is capital investment to expand plant and other resources, and the second is investing in staff."

Victrex employs about 70 people, but plans to increase staff in the areas of sales and marketing. The company has also already begun work on increasing the capacity of its manufacturing plant by 50 per cent, and it plans to build a new research centre at its

headquarters near Blackpool.

Mr Rowley said the company was experiencing increasing demand for plastic materials capable of performing under hostile conditions.

The company's principal product is PEEK, or polyetheretherketone, a high-performance plastic with properties such as chemical inertness, high resistance to wear and ease of processing into components.

Baring Brothers will act as sponsor and Cazenove as stockbroker to the flotation. Victrex's main backers at its mbo were CVC Capital Partners, NatWest Ventures, Chase Manhattan and Citicorp.



Peter Rowley: responding to increased demand

NEWS DIGEST

Hozelock builds on dry spell advance

Shares in Hozelock rose 16 1/2p on Friday to \$24.9, a new high for the year, after the garden equipment manufacturer said it had made solid progress following the prolonged dry weather in Britain and continental Europe.

The company, which is next month expected to report full year profits of about \$2m (\$7m), has told shareholders it was enjoying good margins and continued to be highly cash generative.

"The summer season was excellent for us and there's more underlying business to go for," said Mr David Codling, chief executive. He hinted at further expansion in continental Europe, particularly in France and the Netherlands, which he described as important areas for growth.

In a letter to shareholders, Mr Codling also urged investors to ratify the group's decision to build a new \$5.8m distribution centre in the Midlands. "It will triple the group's finished product storage capacity and will provide much enhanced distribution facilities to meet planned expansion in the future."

Heritage Bathrooms

Heritage Bathrooms is coming to the market through a placing of 7.52m shares at 125p

each, giving it a market capitalisation of \$22.4m.

In the year to May 31 it had pre-tax profits of £1.99m on turnover of £12.4m. Dealings are expected to begin today.

Philip Harris buy

Philip Harris, the scientific and medical equipment supplier, has acquired the Unilab group of companies for an initial £2.5m in cash and loan notes. Unilab, based in Blackburn, Lancs, makes science and technology equipment and supplies direct to the education market.

Further consideration of up to £750,000, to be satisfied in loan notes, is dependent on the completion of certain orders.

In the year to March 31 1995 Unilab made pre-tax profits of \$22,000 on turnover of £4.1m after excess directors' costs of £235,000. Net asset value at completion has been warranted at £330,000.

An exceptional charge of \$200,000 relating to the rationalisation of operations will be taken in Harris' accounts for the year to March 31 1996.

Advest purchase

Advest Group is acquiring Conversion Devices, a US power supply manufacturer, for up to \$10.4m (\$8.5m) from EQ Corporation. The price includes an earn-out which could be a maximum of \$3.3m.

Telia offers savings through call routing

By Alan Cane

The 50,000 small and medium-sized companies which spend more than \$250 a month on international telephone calls are the principal UK target for Telia, Sweden's state-owned telecoms operator.

It is offering these companies savings of up to 30 per cent on international calls through a new service, international simple resale (ISR). The calls are routed over the public telephone network to Telia's switch, located in west London, and from there to its network in Sweden for onward transmission.

The service also covers UK domestic calls. There are no start-up costs and no minimum call charge.

Telia is not the first ISR operator in the UK - it has at least 16 competitors - but it claims to be tailoring its services to the needs of smaller companies.

Lyonnaisse announced its intention to launch a bid for Northumbrian, which is due to report half-year results on Thursday, in March. It declined to detail its offer until the regulatory process was completed.

Although Mr Lang is likely to give the go-ahead, it is unclear what conditions might be attached. Ofwat, the industry regulator, recommended that if successful Lyonnaisse should offer customers price cuts of 15-20 per cent. If these are part of the deal, Mr Lang must also decide over what period they must be made.

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Decision expected on French water bid

By Chris Price

Mr Ian Lang, the trade and industry secretary, was expected to reach a decision this weekend on the proposed takeover of Northumbrian Water by Lyonnaisse des Eaux.

An announcement was expected last week, but it is understood that the DTI report was delayed in Brussels. EU approval is now thought to have been given and the report is back with Mr Lang; however, analysts said any amendments requested by EU officials might cause further delay.

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The emergence of negative nominal rates of interest is a rare and somewhat freakish event. It is doubly freakish, in the latest manifestation in Japan, because it has happened twice there in less than 10 years.

First we saw Japanese companies in the 1980s scarcely able to believe their luck when they obtained a negative cost of capital by swapping the proceeds of warrant-related euro issues back into yen. Now, with boom moving to bust, we have negative returns on one side of many yen-denominated interest rate swaps, where the original terms were fixed at a discount to the Tokyo interbank offered rate (Tibor).

Tibor, a variable rate, currently stands at a mere 0.5 per cent, compared with typical fixed swap discounts agreed in happier times of 0.75 per cent. Counterparties are thus confronting demands for both the original agreed swap rate, and an additional 0.25 per cent.

There are several explanations for negative interest rates, the most common of which stems from unanticipated inflation. While nominal rates remain positive, the real interest rate after adjusting for

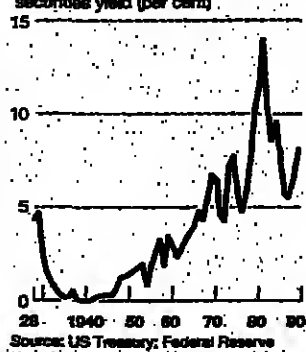
inflation is negative. The British home loan market has provided frequent examples. Negative nominal rates of interest are rarer. They can arise from unwanted hot money flows - witness the Swiss National Bank's decision in the late 1970s to impose a reserve requirement of 100 per cent for nonresident deposits. To recompense the resulting increase in their cost of funds, Swiss banks had to charge foreign investors for putting money on deposit.

The aim was to prevent currency overvaluation and a loss of competitiveness. The inflow stemmed partly from German investors' desire to escape from a new withholding tax in the Federal Republic. Yet the experiment was a mixed success. Unlike the present situation with interest rate swaps, the depositors were not locked into existing contracts. They were able to take avoiding action, for example by choosing near-equivalent financial assets.

With Germans once again pumping money into Switzerland, this time in flight from European monetary union, negative rates are being mooted. In today's more sophisticated financial environment, that would provide financial engineering opportunities for derivatives experts but possibly not much help to the Swiss.

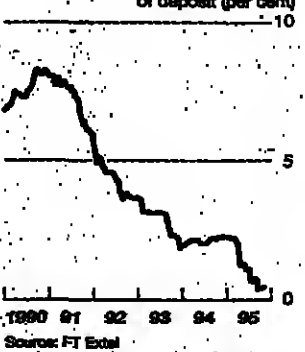
Lessons from history

US short term government securities yield (per cent)



Source: US Treasury, Federal Reserve

Japanese 3-month certificate of deposit (per cent)



Source: FT Data

land, this time in flight from European monetary union, negative rates are being mooted. In today's more sophisticated financial environment, that would provide financial engineering opportunities for derivatives experts but possibly not much help to the Swiss.

Similar problems can arise where exchange rates are managed via a currency board,

with a peg to a stronger currency. Hong Kong, with a US dollar peg, has suffered from hot money inflows when its exchange rate has looked super-competitive against the United States. While it has never gone as far as Switzerland, the Hong Kong government has opted earlier this decade to prepare legislation to permit local banks to pay negative rates.

Total return in local currency to 2/11/95

	US	Japan	Germany	France	Italy	UK
Cash						
Week	0.11	0.01	0.06	0.13	0.20	0.13
Month	0.46	0.04	0.34	0.51	0.86	0.57
Year	6.83	2.75	5.56	6.36	10.06	7.44
Bonds 3-5 year						
Week	0.53	-0.35	0.55	1.10	0.87	0.56
Month	1.49	-0.15	1.17	1.48	1.23	0.94
Year	13.86	13.26	13.87	12.63	14.74	13.44
Bonds 7-10 year						
Week	1.07	-0.18	0.52	1.47	1.72	1.06
Month	2.08	-1.04	1.86	2.05	1.80	1.57
Year	20.59	17.36	16.51	18.65	15.47	15.58
Equities						
Week	2.2	1.5	1.8	3.4	2.2	0.2
Month	1.8	-1.2	2.1	4.6	4.0	0.1
Year	30.2	-6.8	6.3	2.1	-1.7	18.4

Source: Cash & Bonds - Lehman Brothers. The FT-Activision World Indices are owned by The Financial Times Limited. Goldman Sachs & Co. and Standard & Poor's.

Japan is something else again. The 1980s warrant bonds were an example of investors being prepared to subsidise companies' borrowing costs because they believed that asset price inflation was forever. The subsequent outbreak of negative rates in interest rate swaps reflects the aftermath of the bubble, a classic symptom of incipient deflation. Had there been a swaps mar-

ket in the 1930s, deals conducted before the October 1929 stock market crash would have run into similar trouble between 1934 and 1936, when more than a third of the country's banks went out of business and the US Treasury bill rate hovered around 0.125 per cent (see chart). As it was, the more obvious deflationary symptom in the 1930s, as in the earlier Great Depression of

1873-96, was that cash yielded a positive return because the price level was falling.

Interestingly, the Swiss banks in the 1980s often set minimum interest rates when advancing floating rate loans, explicitly citing the need to protect themselves from low or negative rates. No doubt the swaps market will now follow suit.

Where, meantime, do the Japanese go from here?

The parallel with the 1930s can be overdrawn. Whereas the US saw real incomes fall by 36 per cent between 1929 and 1933, any fall in Japan has been insignificant. Deflation has so far been mainly confined to the price of assets, rather than goods and services.

Moreover, the stance of fiscal and monetary policy has changed significantly since July. Taxpayers' money is now being used indirectly to bail out the banks. And with the banks' cost of funds down to a mere fraction of 1 per cent, they can follow the US banks in exploiting a favourable yield curve, although the risks in

Japan are much higher with the fiscal position deteriorating.

The crisis is not over yet. But if the Japanese authorities do manage to avoid a meltdown, the lesson of history is that Japan might then, with a large negative output gap, be due for a period of well above average growth. After the banking panic of 1929, which marked the beginning of the 19th century Great Depression, the US saw a phenomenal 9 per cent annual growth in real income between 1929 and 1933. (For the US, the Great Depression was an outright misnomer; while people were mesmerised by a plunge in the price level, output soared.)

As for the 1930s, Friedman and Schwartz in their classic monetary history of the US show that the 9 per cent growth rate in 1929-33 was only topped in peacetime by the boom that followed the contraction of 1929-33. Net national product rose 12 per cent a year in constant prices between 1933 and 1937. That, too, flies in the face of popular perception. How a comparable boom would affect the Japanese stock market is another matter. Despite the pricking of the bubble, today's values in Tokyo bear no comparison with Wall Street's bargain basement back in 1933.

Some comparisons can be overdrawn

Global Investor / John Plender

Do countries sustain economic growth by limiting the size of government, or do they limit the size of government by sustaining growth? Three years as the Governor of Hong Kong have left Chris Patten believing in the first proposition. In his view, lean government helped east Asia grow rich, and it could do the same for the lethargic economies of western Europe - if only our overburdened political systems would allow it. Yet, even if we assume with Mr Patten that east Asia's success was grounded more in universal economic principles than in cultural norms, the lessons for Europe would be less obvious than he suggests.

There is no getting around the fact that government outlays take up a far smaller share of GDP than in most western European countries. Government spending in the "tiger" economies of Hong Kong, Singapore, South Korea and Taiwan averaged 20 per cent of GDP between 1980 and 1993, compared to an average share of 48 per cent for the European industrial countries.

Those who argue that small government is the result - rather than cause - of east Asia's success can point out that it is far easier to keep government expenditure rising in line with GDP when the denominator is going through the roof. The tiger's real GDP per capita grew by roughly 6% per cent a year, on average, between 1980 and 1993.

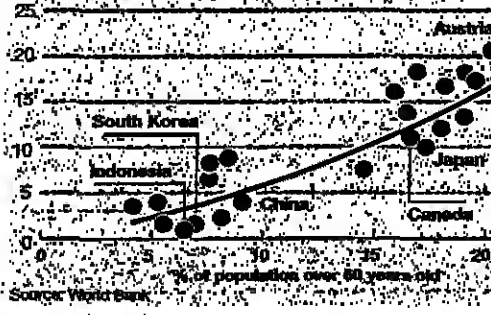
In the long run, though, it is one of the best-established relationships in economics, named after Adolph Heinrich Wagner, a nineteenth century German economist - that the ratio of government spending to GDP will rise as a country grows richer. This is because public-provided services, such as education and health, are

Economics Notebook

Why states must grow

Growing older and growing slower

Public health and pension spending as a % of GDP



"superior goods": a 1 per cent increase in income triggers a more than 1 per cent rise in demand.

Over the years, every industrialised country has tended to confirm Wagner's prediction. The tiger economies do seem so far to have avoided it, even though real GDP per capita, at least in Singapore and Hong Kong, is now close to European levels. But the fact that they have managed to achieve western standards of living without western-style expenditure growth may have very little to do with their approach to government, and everything to do with demography.

Alongside the region's rapid development was an equally dramatic move towards rich country rates of population growth. This rapidly declining birth rate had, two highly favourable consequences for government spending. First, because there were fewer young people, governments could meet the demand for higher levels of education without actually having to spend more on education as a share of GDP. The second

bonus was higher national saving, because a rising share of the population was going through the "high-saving" years of the life cycle. This formed part of a virtuous cycle by which high saving made for continued high rates of growth, leading to a further rise in overall saving, because saving by richer, middle-aged years exceeded the dissaving of their retired parents. Sooner or later, the logic of declining population growth will start to work the other way round, leading to higher levels of government spending on health and pensions. In Singapore, for example, the Asian Development Bank calculates that nearly 30 per cent of the population will be over 60 in 2025, compared to less than 9 per cent in 1990. Traditional informal systems of providing for the elderly have so far been surprisingly resilient against the effects of rapid economic and social change. But the World Bank and others firmly expect the region to move towards more formal, public, methods of support in future.

This does not necessarily

mean the government share of GDP will reach European levels. It all depends on whether east Asia can avoid the two problems which have done most to speed the workings of Wagner's Law in Europe. First, and most important, was a rapid decline in average rates of economic growth since the early 1970s, which put upward pressure on public spending just as the effects of an ageing population were beginning to kick in.

Europe's second problem was its reliance on "pay as you go" pensions systems, which fund public pensions using current workers' contributions. This may have produced a vicious circle which is an exact reversal of east Asia's youthful, virtuous one.

Middle-aged people, expecting to receive a public pension, may save less than they would otherwise. At any event, their contributions have not added to national saving - as they would under a funded scheme. Indeed, public dis-saving has risen, as governments struggle to meet pension demands in a low investment, low growth environment.

As many of Mr Patten's critics have pointed out, east Asian governments have not generally been known for their laissez-faire approach, particularly with regard to the mandatory pension schemes and state Provident Funds employed to increase national saving. Ironically enough, the most relevant lesson for Europe, of east Asia's growth miracle may in fact be the need for more rather than less state involvement in the functioning of certain parts of the economy. Adopting an Asian approach - to ensuring that baby boomers save for their old age would not, in itself, free Europe from the trap of low savings and growth rates. But it might stop us moving ever further in the wrong direction.

Stephanie Flanders

COMMODITIES

Grain trade meets in Brussels

With world stocks of grain at a 20-year low and prices close to historic highs, the conference on the World Grain Trade to the Year 2000, which the Agriculture Ministry is holding in Brussels on Wednesday and Thursday, is likely to attract considerable interest.

The keynote address will be given by Mr Jose Manuel Silva Rodriguez, the European Union's director of crop products. Other speakers include Mr Trevor Fluge of the Australian Wheat Board and Mr Germain Denis, executive

director of the International Grains Council (formerly the International Wheat Council).

In its latest crop report last month the IGC confirmed that the world supply situation was continuing to tighten, with sharp cuts in estimates of production in Mexico and the US being largely responsible for a further 14m-tonne reduction in projected coarse grains production for 1995-96, compared with the figure given in its September report. It also reduced its wheat crop estimate by about 3m tonnes.

With consumption estimates being reduced by smaller amounts, projected end-season stocks for both coarse grains and wheat were cut still further.

Other events this week include the Latin American Mining Conference in Caracas, Venezuela, which began yesterday and continues until Wednesday.

Caracas is also the venue for Thursday's forum on the privatisation of Venezuelan aluminium companies, which is organised by the country's Aluminium Industry Association.

On Wednesday J.B. Were and Sons and the Victorian Chamber of Mines are holding their Victorian Resources Conference in Melbourne. In the evening, also in Melbourne, the LME (Down Under) dinner will be held.

Also on Wednesday, in Pocos de Caldas, Minas Gerais, Brazil, Minas Gerais co-operatives and the state's Agriculture Federation begin their three-day conference on the international Coffee Market, Demand and Outlook.

FT/S&P ACTUARIES WORLD INDICES

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WORLD	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Notice of Partial Redemption to the Holders of Banco Central de Costa Rica Series 8 Interest Claims Bonds

NOTICE IS HEREBY GIVEN TO THE HOLDERS OF THE INTEREST CLAIMS BONDS, pursuant to the provisions of the respective Fiscal Agency Agreements dated as of May 1, 1990 among Banco Central de Costa Rica, the Republic of Costa Rica as Guarantor, and BankAmerica National Trust Company (formerly BankAmerica Trust Company of New York) as Fiscal Agent, that the following described Principal Coupons on each Interest Claims Bond will be redeemed on November 21, 1995 at the principal amount thereof with the proceeds of Value Recovery Payments required to be made by Banco Central de Costa Rica pursuant to Section 12(b) of each Interest Claims Bond.

Principal Coupons to be Redeemed:
May 21, 2005
February 21, 2005
November 21, 2004
August 21, 2004
May 21, 2004

Payment of the principal amount of each Principal Coupon due upon redemption shall be made on or after such redemption date upon the presentation and surrender of the Interest Claims Bonds, together with all Principal Coupons called for redemption and together with all Interest Coupons coming due and payable on or after May 21, 2004, at any of the following locations:

BankAmerica National Trust Company
One World Trade Center, 19th Floor
New York, New York 10048
or
Bank of America National Trust and Savings Association
25 Cannon Street
London EC4A 3NF, England
or
Banque Internationale a Luxembourg S.A.
80, rue d'Esch
L-1052, Luxembourg

Notice is further given that interest shall cease to accrue on that portion of the principal amount of the Interest Claims Bonds evidenced by the above-described Principal Coupons redeemed on or after November 21, 1995, which is a scheduled interest payment date for the Interest Claims Bonds.

The redemption on November 21, 1995 will be handled with the proceeds of the November 21, 1994 and May 21, 1995 Value Recovery Payments in respect of which Banco Central de Costa Rica deposited funds with the Fiscal Agent on October 1, 1995, and with the proceeds of the new Value Recovery Payments which will become due and payable on November 21, 1995.

By: BankAmerica National Trust Company as Fiscal Agent

Dated: November 1, 1995

USD 150,000,000

SOLVAY FINANCE (Bermuda) LTD

Floating Rate Notes due 1998

Series 1 USD 120,000,000

Interest Rate 6.375% p.a.

Interest Period November 05, 1995

May 05, 1996

Interest Amount due on

May 05, 1996 per

USD 500,000 USD 161,145.58

BANQUE GENERALE DU LUXEMBOURG

Agent Bank

The Financial Times plans to publish a survey on Northern Ireland - The New Business Opportunity on Thursday, November 30

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- In Ireland the FT reaches 3

EQUITY MARKETS: This Week

NEW YORK

Lisa Branstetter

Data is key to consolidation of advances

Twice this year - once in September and once in October - the Dow Jones Industrial Average has crept above the 4,800-point level only to fall back into the realm of the 4,700s the next day.

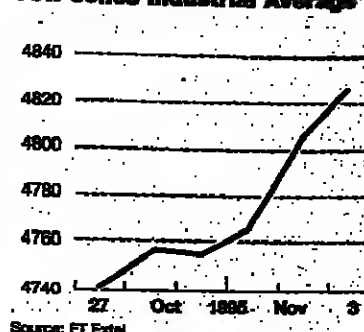
On Friday, however, the Dow managed to hold on to Thursday's gains and close at 4,825.57.

The question for this week is whether or not the market has enough momentum to hang on for a third day, and the answer to that question may well lie in the data.

Few on Wall Street still hold out hope that the Federal Reserve will lower interest rates at next week's meeting of its Open Market Committee, but the data due out this week should provoke more speculation about monetary policy through to the end of the year.

For the most part, economists are expecting figures that should support

Dow Jones Industrial Average



the view that the economy is slowing. The producer price index, set to be released on Thursday, is expected to remain unchanged from September's 0.3 pace.

Also important will be Tuesday's data on third quarter non-farm productivity, especially given the Commerce department's estimate that the economy grew 4.2 per cent in the third quarter. Economists from Salomon Brothers believe that productivity advanced 2.9 per cent, slowing modestly from the second quarter's 4.8 per cent increase.

LONDON

Steve Thompson

Good news sought to calm frayed nerves

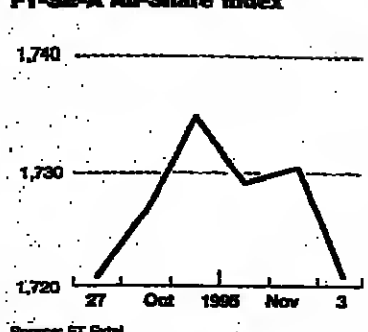
With 13 FT-SE 100 constituents due to report this week plus many more of the bigger companies in the FT-SE Mid 250 index it could be another volatile week for equities. Dealers will be hoping that if there are any more shocks, they will be pleasant surprises rather than those that caused last week's market tremors.

The scope for bad news looks to be mostly in the general and food retailing areas of the market, the same sectors that caused such mayhem on Wednesday and Thursday last week.

First, J. Sainsbury, then Kwik Save confirmed what food retailing analysts had long feared, the outbreak of another damaging price war among the big supermarkets. Boots, the high street retailer, did nothing to calm frayed nerves, pointing to the damage caused to sales by the warm weather.

All of which must be causing discomfort to Marks and Spencer, the UK's biggest retailer which reports

FT-SE-A All-Share index



interims on Tuesday. Some comfort for investors will come with an expected 13 per cent increase in the dividend.

Shell Transport's caution last week on prospects for oil prices hit sentiment in the sector, impacting on BP, whose third-quarter report is on Tuesday.

Meanwhile, the FT-SE 100 remains entrenched in the 3,450 to 3,500 range. It needs more than bid rumours to drive it through the upper level. The DTT's move in flagging through the North West Water bid for Norweb may be the catalyst for another burst of activity in the utilities.

International offerings

Success of Eni issue could depend on Opec meeting

Institutional investors are showing strong interest in the billion-dollar privatisation of Eni, the Italian oil and gas company, but developments in the oil industry could prevent that interest from turning into equally healthy orders.

Bankers are concerned that investors, especially those in the US who have been allocated the largest slice of the institutional tranche, might sit on their hands until they know the outcome of the forthcoming meeting of the Organisation of Petroleum Exporting Countries.

The Opec meeting is scheduled for November 21, just days after Eni shares are priced and the same day that the domestic retail offering starts. Analysts are attaching much more importance to this meeting than to others held in the recent past because this time Opec members are to re-open the sensitive issue of production ceilings and quotas.

The fear for investors is that oil prices, already low, would come under further downward pressure if Opec decides to raise the production ceiling to win back market share from non-Opec oil producers.

Because the outcome of the Opec meeting is difficult to predict, investors might decide to limit the size of their subscription to the Eni offering, since because of its sheer size, they could easily pick up more stock in the after-market once the result is known.

The Italian government, which has set a price range of £2,250 to £2,500 a share, is offering to sell 1,350 to 1,550 shares, or 16.9 per cent to 24.4 per cent of Eni's share capital.

If it achieves the top price, it will raise £11,400m (£7.1bn). Of the total shares on offer, the institutional tranche has been fixed at 950m shares, with 200m to 340m earmarked for US investors. The second-biggest tranche is for Italian institutions with 185m to 285m shares, followed by the UK with 170m to 240m, continental Europe with 100m to 170m and the rest of the world with 55m to 115m shares.

The remainder - between 400m and 1bn shares - have

been reserved for the domestic retail offer. Domestic retail investors thinking of participating in the privatisation are unlikely to base their decision on the Opec meeting. But if the meeting has a negative impact on the institutional tranche, it could have a knock-on effect on the domestic offering.

Although the Eni privatisation comes hard on the heels of the Mediobanca/Ferruzzi Finanziaria affair, which has put the inadequate protection for small shareholders back in the media spotlight, the government is thought to be optimistic about the likely response to the retail offering and about Eni's share price performance over the next year.

It is believed that the government has not taken measures to hedge itself in the event that it has to compensate retail investors for a fall of up to 10 per cent in Eni's share price in the first year of trading.

Bankers believe the success of the Eni transaction will depend on the government's decision on pricing. Although a price closer to the bottom of the range might be seen as a "failure" in the short term, generosity on the government's part now could yield long-term benefits for its privatisation programme.

It is possible that Eni, the electricity company, could come by the spring of next year, and another tranche of Stet, the telecoms company, is scheduled to be sold by the end of 1996. With such a heavy calendar of issuance, the government needs a strong stock market performance by Eni to win the affections of the international investment community.

The process of other equity offerings in the market shows investors are selective about what they decide to buy. Flotations, especially of turnaround situations such as Gucci or Addidas, are eagerly snapped up.

By contrast, secondary or "follow-on" offerings are becoming increasingly difficult to place. This is hardly surprising given the near 10 per cent under-performance by Telefonica, the Spanish telecoms company, since September's sale of

a further tranche of state-owned stock.

The Dutch government's decision not to offer a discount on its recent sale of more shares in KPN, its telecoms company, has been seen as a further dampener on secondary offerings.

Since fund managers dislike blotting their copybook at the best of times, let alone towards the end of a rather gloomy year, the priority they give to offerings which are set to make instant gains is understandable.

However, their indifference, or in some cases aversion, to secondary offerings is a worry for bankers and governments with privatisation programmes.

The selective behaviour of investors is believed to be causing problems for the DM1bn international share placing by Commerzbank, Germany's third-biggest bank. The sale is thought to be struggling because of the generally-held view that there is little upside in German banking shares.

Although Commerzbank would want to place its new shares as close to the market price as possible, some bankers say it will have to offer the maximum discount of 5 per cent to get the shares away.

Among other deals in the market, bookbuilding for the privatisation of Mol, the Hungarian oil and gas company, starts today as does the European roadshow for PT Telkom, the Indonesian telecoms company. The complex structure of the banking syndicate for PT Telkom has prompted one banker to describe the offering as "the logistical and organisational challenge of the first magnitude".

Bankers expect the French government to make a decision early this week on the planned privatisation of Pechiney, the aluminium and packaging group. If the government wants the privatisation to go ahead this year, pre-marketing needs to begin soon in order to have sufficient time to hold a domestic public offering before the Christmas holidays.

Antonia Sharpe

OTHER MARKETS

FRANKFURT

After a week marked first by high enthusiasm for Hoechst, and then disappointment in the progress of the Dutch leaders, DSM and Akzo Nobel, Germany's "Big Three" chemical companies are expected to produce third-quarter reports over the next four days, writes William Cochrane. Hoechst results today could be complicated by the parent's treatment of restructuring costs resulting from the \$7.1bn acquisition of Marion Merrell Dow in the US a few months ago, by the timing and split of the depreciation of goodwill - which could come to DMS5m, in total - and by profits from divestments.

Analysts expect an underlying profit gain of 25 per cent for July/September, unexciting, perhaps, after leaps of 94 and 93 per cent in the first two quarters. But the third quarter of 1994 had already seen an immense recovery, with pre-tax profits up from DML46m to DML606m.

Mr Andreas Schmidt, chemicals analyst at BZW in Frankfurt, expects Bayer, on Tuesday, to produce third-quarter figures 23 per cent higher at DM776m from a 4.4

per cent rise in sales, and BASF, on Thursday, to be up 63 per cent, and 5.3 per cent respectively. A crowded week should also host preliminary figures from Siemens on Wednesday, and third quarters from Vieg and Veba on Thursday.

ZURICH

Since the end of August the Swiss exchange's banks sub-index has risen by more than 13 per cent, twice as fast as the SMI index of leading shares, writes Ian Rodger.

Much of the action has been in response to lower interest rates and big fund inflows into Swiss franc instruments following the European monetary union scare.

Union Bank last week provided some welcome fundamental support, indicating that its third-quarter earnings were back on a positive trend after a 10.4 per cent fall in the first half. CS Holding and Swiss Bank are expected to publish equally positive statements.

Mr Josef Ackermann, chief executive of Credit Suisse, said two weeks ago that the bank's trading profits in the first nine months equalled those in the whole of last year. And Mr Georges Blum, SBC chief

executive, said the strong first-half trend, when the bank's earnings were up 23 per cent, continued in the third quarter.

AMSTERDAM

The interim results season continues with figures from KNP PT, the paper company, on Wednesday and Hunter Douglas, the window coverings and architectural products group, on Friday, writes John Pitt. After a good first half, Hunter Douglas is expected to come in with strong nine-month results. Expectations are that US sales have been good over the summer, after a slowdown in the second quarter, while the European picture has held up well.

Analysts expect the shares to perform well in the short term, and to benefit additionally from the sale of its stake in an aluminium smelter.

STOCKHOLM

Analysts are looking for third-quarter figures from the drugs companies to provide support for the market during the week, although some fear that Ericsson's report on Thursday may contain the seeds of disappointment.

UBS notes that with rate

expectations falling across Scandinavia, today could bring a further policy stimulus with the unveiling of the Swedish growth package - basically a one-off budget within a budget, focused on unemployment and corporation tax.

Unusually, there have been few leaks on the package, but UBS believes that the most significant detail may be a change in the law to allow Swedish companies to buy back their own shares.

TOKYO

Investors are focused on Sony's second-quarter results this week, after the stock's plunge last week on worries about its inventory levels, writes Emilio Terazono.

Although most Japanese consumer electronic companies are suffering from weak markets for their traditional products, Sony is particularly vulnerable to a downturn in the sales of video recorders, televisions and audio products, which comprise almost 60 per cent of group sales.

While analysts see the selling as overdue and expect position adjustments ahead of the company's announcements, worse-than-expected figures could once again lead to selling pressure.

HONG KONG

America will continue to set the tone for Hong Kong's equity market, writes Louise Lucas. Investors will begin the week studying the US employment figures, out overnight on Friday Hong Kong time. The underlying story remains one of interest rates: analysts in the colony reckon that the US outlook is essentially non-inflationary and that a cut in interest rates could be on the horizon, both in the US and, via the currency peg, Hong Kong.

However, a dearth of domestic news has kept activity subdued, and some brokers believe the market will continue to trade within the 9,500 to 9,600 band. The underlying story remains one of interest rates: analysts in the colony reckon that the US outlook is essentially non-inflationary and that a cut in interest rates could be on the horizon, both in the US and, via the currency peg, Hong Kong.

Two Hang Seng constituent companies report full-year earnings this week - China Light and Power, the electricity supplier, today and New World Development, a property company, on Wednesday.

Compiled by Michael Morgan

The FT GUIDE TO WORLD CURRENCIES, published in Money's newspaper and covering over 200 currencies, is now available by dialling the following number from the keypad or handset of your fax machine: 0991 437 001. Calls are charged at 35p/min plus 10p/min at all other times. For service outside the UK please telephone +44 171 873 4378 for details on Chelney International.

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NOTICE TO BONDHOLDERS
The Directors of Sino Land Company Limited ("the Company") on 2nd October, 1995 proposed a final dividend of Hong Kong \$ cents per share for the year ended 30th June, 1995 to shareholders whose names appear on the register of members on 28th November, 1995. This final dividend is subject to the approval of shareholders of the Company at the Annual General Meeting to be held on 28th November, 1995 and will be despatched on 21st December, 1995. The register of members of the Company will be closed from 22nd November, 1995 to 28th November, 1995 (both days inclusive). Registered holders of outstanding Bonds who wish to exercise their conversion rights attaching to their Bonds so as to be entitled to the said final dividend should lodge the properly completed and signed conversion forms together with the bond certificates with their Agent so as to reach the Company before 4.00pm, (Hong Kong time) on 28th November, 1995.

By Order of the Board
Eric Ip Kai Kwong
Secretary
Hong Kong

6th November, 1995
By Citibank, N.A. (Issuer Services), Agent Bank
CITIBANK

RECOMMENDED FINAL CASH OFFER BY
Chase Investment Bank Limited
on behalf of
Statoil (U.K.) Limited
to acquire the entire share capital of
Aran Energy plc

Chase Investment Bank Limited ("Chase") announces on behalf of Statoil (U.K.) Limited ("Statoil U.K."), a wholly-owned subsidiary of Den norske stats oljeselskap a.s. ("Statoil"), that the formal offer document containing the recommended final cash offer (the "Offer") on behalf of Statoil U.K. (the "Offer Document") to acquire all of Aran Energy plc's ordinary shares of IR20p each ("Aran Shares"), including Aran Shares represented by American Depositary Shares ("ADSs"), has been posted today.

A holder of Aran Shares or Aran ADSs (an "Aran Securityholder") who accepts the Offer will receive IR70p in cash for each Aran Share and IR\$22.80 in cash for each Aran ADS. Based on an exchange rate of IR\$1 = Stg\$1.0234, the Offer represents Stg\$77.7p per Aran Share and Stg\$23.31 per Aran ADS. Based on an exchange rate of IR\$1 = US\$1.6165, the Offer represents US\$1.22 per Aran Share and US\$38.85 per Aran ADS. Whilst the Offer is denominated in Irish pounds, holders of Aran Shares or Aran ADSs will be entitled to receive their cash consideration in Irish pounds, pounds sterling or US dollars.

The full terms and conditions of the Offer (including details of how the Offer may be accepted) are set out in the Offer Document and in the related acceptance forms which collectively comprise the Offer. This advertisement does not constitute and must not be construed as an offer to acquire Aran Shares or Aran ADSs. Holders of Aran Shares or Aran ADSs who accept the Offer must rely on the Offer Document and the related acceptance forms for all the terms and conditions of the Offer.

The Offer will be open for acceptance until 3.00 p.m. (Dublin and London time), 10.00 a.m. (New York City time) on 6 December 1995, unless extended.

The Offer extends to all persons who hold Aran Shares or Aran ADSs who may not receive the Offer Document. Such persons are informed that copies of the Offer Document and the related acceptance forms are available from the UK receiving agent, The Royal Bank of Scotland plc at Registrar's Department, P.O. Box No. 859, Convent House, East Street, Westminster, Bristol, BS69 1JZ, England, the Irish receiving agent, Price Waterhouse at Registration Department, Gardiner House, Wilton Place, Dublin 2, Ireland, the US depositary, The Chase Manhattan Bank, N.A., at Box 3032, 4 MetroTech Center, Brooklyn, NY 11245, USA and the US information agent, Georgetown & Company Inc., at Wall Street Plaza, New York, NY 10005, USA.

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The directors of Statoil U.K. accept responsibility for the information contained in this advertisement. To the best of their knowledge and belief (having taken all reasonable care to ensure that this is the case), the information contained in this advertisement is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Offer is final and will not be increased, except that Statoil U.K. reserves the right to revise and/or increase the Offer if a competitive situation arises and/or the Panel on Takeovers and Mergers otherwise so permits.

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6 November 1995

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WORLD BOND MARKETS: This Week

NEW YORK

Lisa Bransten

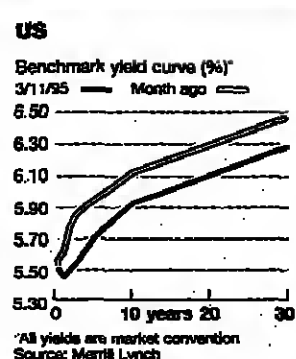
Even with a slight slip on Friday, US bonds had a remarkable week sending yields - which move in the opposite direction to prices - down to levels not seen since early 1994. Since the October 26, the yield on the benchmark 30-year Treasury has fallen 12 basis points to 6.27 per cent.

Now, even some bullish analysts believe that at such levels bonds are due for a difficult week.

Mr Garry Jones of Paribas Capital Markets says: "The market has moved a long way very quickly and although some range trading and consolidation is likely in the coming week, the longer-term outlook is still positive."

One important cloud hanging over the market this week will be the discussion in Congress about whether to raise the debt ceiling to allow the Treasury department to raise new money to finance the obligations coming due.

The Treasury estimates that



the government can meet its obligations to November 15. If there is no increase in the debt limit after that, the possibility of a default becomes more of a factor and could have a negative impact on trading.

Economists expect data this week to confirm that the economy is still drifting in a soft landing. For example, figures on producer prices are expected to remain unchanged on the heels of September's 0.3 per cent increase.

LONDON

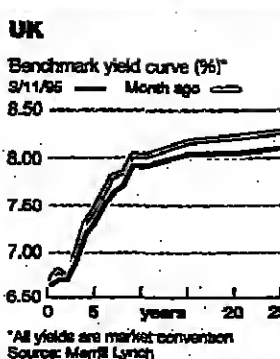
Richard Lapper

Gilt fell on Friday but outperformed Germany on the week, with the 10-year yield spread over bunds closing 7 basis points lower at 163.

This week, the market will watch industrial production figures - due Monday - and CBI distributive trade data on Friday for further signs that growth has peaked. Figures in the US and the UK have dampened inflationary fears and overshadowed funding worries.

The Bank of England's quarterly inflation report on Wednesday will also be much awaited. Mr Simon Briscoe, chief UK economist at Nikko Europe, says the Bank may revise down its inflation forecast, reducing the likelihood of interest rate rises.

The Bank expects inflation to peak at 3% per cent at the end of the first quarter of 1996. Mr Briscoe says this could be lowered to 2% per cent and occur earlier. In the longer term, the Bank expects inflation to fall to 2% per cent



by the middle of 1997, but Mr Briscoe thinks this forecast too could be revised down to 2% per cent. Overall he expects gilts to end the week higher.

Mr Andrew Roberts, gilt analyst with UBS, expects the Bank to take advantage of market conditions by issuing tranches of gilts. "Index-linked gilts should also benefit from a low growth outlook, especially given the supply cloud has now been lifted," he said.

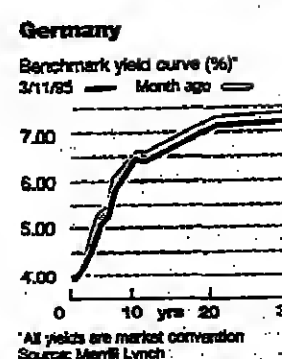
FRANKFURT

Andrew Fisher

Further evidence of Germany's faltering economy was provided on Friday when the economics ministry said industrial output fell again in September. The weaker than expected figures reinforced expectations that the Bundesbank will cut rates early next year, although not all economists are convinced.

One who does expect such a move is Mr Richard Reid at Union Bank of Switzerland. With industrial production down by 1.9 per cent in September after a 3.1 per cent drop in August - a rebound had generally been thought likely - gross domestic product growth in the third quarter would probably show a slowdown, he said. Although the ministry said the September data would probably have to be revised upwards, he added: "This is unlikely to change the view that the economy is slowing."

More unfavourable economic news, which could come with this week's October



unemployment figures, could well prompt the Bundesbank to cut interest rates by a further half a point by February, Mr Reid said. Meanwhile, the securities repurchase (repo) rate is still hovering just above 4 per cent, having come down steadily since the last discount and lombard rate cut in August.

Mr Adolf Rosenstock of Industrial Bank of Japan expects the repo rate to go below 4 per cent very soon.

TOKYO

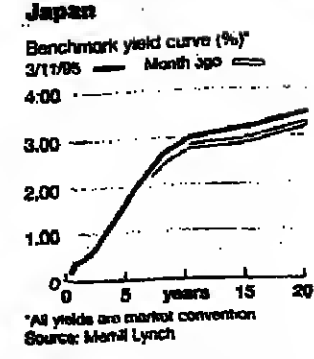
Emiko Terazono

October marked the fastest expansion in Japanese money supply since December 1990, says SBC Warburg in Tokyo. This is likely to have been caused by an expansion of foreign assets through intervention on the foreign currency markets, direct lending to banks as a result of financial instability, and outright purchases of Japanese government bonds.

Active foreign exchange intervention by the central bank to support the dollar against the yen increased liquidity, while the Bank boosted direct lending to banks following a run on deposits of two credit unions - Cosmo Shinyo and Kizu Shinyo - and Hyogo Bank, a regional bank.

The Bank also started outright purchases of JGBs, buying an average of ¥700bn a month. "Private sector liquid assets are building up to levels well in excess of current transaction needs," says SBC Warburg.

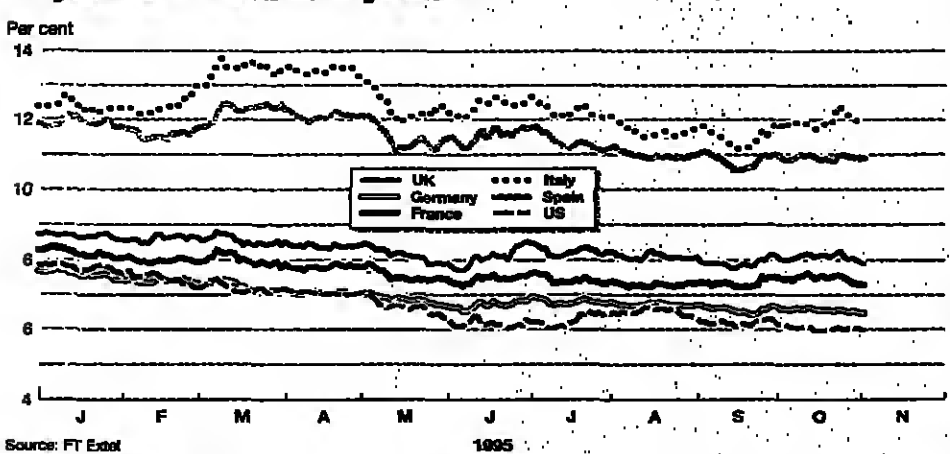
This is good news for



financial markets and for the economy, and 10-year benchmark bond yields are likely to remain below 3 per cent in the short term.

However, bonds may not be attractive for longer-term investors. Long-term yields will rise gradually as the economy benefits from monetary expansion. The low returns have also prompted some domestic investors to reallocate their funds to other investments.

10-year benchmark bond yields



INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	5.25	0.50	3.50	6.15	3.00	6.75
Overnight	5.50	0.41	3.54	7.24	10.31	5.50
Three month	5.48	0.55	3.57	6.13	10.47	5.52
One year	5.43	0.62	3.55	5.85	10.58	5.52
Five year	5.71	1.57	5.29	6.51	11.31	7.24
Ten year	5.90	2.86	6.45	7.25	11.70	7.51

(1) France-Repo rate, (2) UK-Bank rate, Source: Reuters.

US TREASURY BOND FUTURES (CBT) \$100,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	118-05	117-29	-0-07	118-20	117-24	282,817	403,649
Mar	117-25	117-16	-0-09	118-08	117-14	3,411	34,340
Jun	117-10	117-02	-0-07	117-16	117-00	445	6,018

Regulation

Barings sparks tougher line in Singapore

All financial centres swing from relaxation to restriction and back as if there were a "regulatory pendulum". When the shock is as great as the collapse of Barings, and the financial market as young as in Singapore, the oscillation is all the more violent.

Simex, the derivatives exchange on which Mr Nick Leeson traded until he brought down Barings bank with £830m of losses, last week announced new regulations.

Among other new requirements, senior management of a firm will have formally to vouch for their officers on Simex. A new large trade reporting system will allow Simex to establish the ultimate owner of all substantial positions.

These Simex reforms are relatively uncontroversial. They follow the recommendations of an international panel, including Mr Jack Sandner, chairman of the Chicago Mercantile Exchange.

But the clampdown has already gone further. Managing directors of

members of Simex must now sign off on paperwork such as the opening of new accounts. Simex has banned the device of the cross trade, which was used by Mr Leeson to transfer positions between Barings' trading books and his secret account, number 88888.

Most important, the authorities have hardened in their pursuit of rule infringements, particularly where the suspects are Barings executives and Simex traders associated with Mr Leeson. The commercial affairs department, Singapore's financial police, is investigating Mr James Bax, Barings' chief executive for Southeast Asia at the time of the UK merchant bank's collapse.

The CAD is also examining cross trades between Mr Leeson and Mr Danny Argyropoulos, a trader for First Continental Trading, a Chicago-based house. Another acquaintance of Mr Leeson, Mr Teo Kok Eng, a leading "local" trader on Simex, has fallen foul of the authorities.

Simex issued a fine of \$81,800 for rule violations to Mr Teo, who last year bailed out Mr Leeson from prison after he was arrested for dropping his

parts in a public place. Some other Singaporeans have not had their licences renewed when they have changed jobs.

The change in the authorities' stance has been abrupt. Simex, prior to the Barings collapse, had a light touch. Dr Richard Ho, Singapore's finance minister, says: "Initially, where such new requirements are introduced, compared with what was, the contrast is probably very, very great."

For futures contracts on the Nikkei 225 index of Japanese shares, margin requirements are relatively low. Before the Barings crash, customers had to deposit more than twice as much in initial margin, in security against default, when trading Nikkei 225 futures on the Osaka Stock Exchange.

Cross trades, which are a convenient and popular device for traders, were tolerated. It appears Mr Leeson, who brought Simex more proprietary trading turnover than any other member firm, felt untouchable. Mr Leeson enjoyed a warm relationship with Mr Ang Swee Tien, president of the exchange, and Simex actually gave an award to Barings for volume in 1994.

Even the official Singapore report into the UK merchant bank's collapse said Simex officials were too impressed by Barings' patina of reputation and slow in following up discrepancies in margin payments on the secret 88888 account.

Sims traders suggest Singapore is compensating, with a broad crackdown now, for its earlier lax oversight of Mr Leeson's trading activities. But there is another, more fundamental, reason for the instability of Singapore's "regulatory pendulum." The government has a dual, and sometimes contradictory, ambition for its financial centre.

Mr Lee Kuan Yew, Singapore's senior minister, said the city-state should aspire to be both the Zurich and the Chicago of Asia.

He meant it should be a "safe haven" as well as a dynamic centre for futures businesses and new financial products.

Singapore's instinct for regulation, reinforced by the Barings collapse, locates it closer to Zurich. Already its reputation as a safe haven has proved attractive to fund managers, 146 of which had set up Singapore offices by

September. Dr Hu says he is content with Singapore's reputation for "clobbering" executives who violate rules. "What rules we have, we enforce," he says.

But futures traders on Simex complain that the application of this bureaucracy to the derivatives exchange is causing some clients to put in their orders through other, less demanding markets.

Trading volume on Simex would be flat without the surge in activity as Mr Leeson built up his positions in January and February, and as they were dismantled in the aftermath of the Barings collapse.

Singapore's preoccupation with the growth of its financial sector is likely to moderate regulation. Dr Hu says the authorities will "re-look" at rules if they drive business away. "I think after a while both sides will come to an accommodation where enough requirements are met without such detailed probing," forecasts Dr Hu.

For Singapore's economic governance is, above all, pragmatic. And the defining characteristic of the pendulum is that it swings back.

Nicholas Denton

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ABN AMRO HOARE GOVETT

October 1995

Gilt-edged market makers

Sector confident of improved results

After racking up some £80m of losses in 1994, one of the worst years in international bond market history, most UK gilt-edged market makers (Gemmies) are confident that 1995 will have been kinder to them.

The dramatic drop in government bond markets in 1994 and the bad performance of one or two sterling eurobond issues which hit some Gemms were exceptional features - so far this year there haven't been events like that," says Mr Simon Briscoe, chief UK economist at Nikko Europe. "It would be extraordinary if, at this stage, Gemms were showing figures as bad as last year's."

Gemmies' annual profit and loss accounts for 1994, now available at Companies House, reveal the full extent of the damage some of them suffered. Among the bigger players, US investment banks Lehman Brothers and Salomon Brothers, managed to post pre-tax profits from their sterling bond operations: £18.8m and £5.6m respectively.

At the other end of the spectrum, US investment bank Goldman Sachs posted a pre-tax loss of £34.6m.

Goldman Sachs declined to comment on the figures, but market observers suggested the bank might have been on the receiving end of heavy US hedge fund selling, forcing it to build up loss-making inventories.

Another big loser was BZW, the securities arm of Barclays Bank, which was particularly hit by its sterling eurobond issues which hit some Gemms were exceptional features - so far this year there haven't been events like that," says Mr Simon Briscoe, chief UK economist at Nikko Europe. "It would be extraordinary if, at this stage, Gemms were showing figures as bad as last year's."

These figures are notoriously difficult to compare as different types of sterling business in their accounts and have varying year-ends - most in December but some in November or March. Some houses include the operating costs of their gilt operations in their profit-and-loss accounts, others do not.

This year has seen the international bond markets behave in a more orderly fashion. Inspired by the continuing rally in US Treasuries, most markets have slowly ground higher, although gilts have been spooked at regular

Gemmies' Pre-tax Profit/Loss
£m for year to end-December

	1994	1995
Lehman Brothers	18.8	8.4
Salomon Brothers	5.6	5.2
Daiwa Europe (Gilt)	1.0	1.9
Nomura Gilt	0.2	2.8
HSCB Greenwell	(0.7)	13.0
J.P. Morgan	(0.3)	(2.1)
Nikko Gilt	(1.9)	(0.2)
Merrill Lynch Gilt	(2.2)	3.2
CS First Boston Gilt	(2.2)	3.2
SG Warburg Securities	(5.4)	(5.8)
Barclays Bank	(6.4)	2.6
UBS Gilt	(7.4)	8.3
BZW Gilt	(10.2)	28.1
Goldman Sachs	(34.6)	(8.1)

*Year ended March 1995
*Year ended November 1994
Source: Companies House

intervals by political worries and funding concerns.

"In 1995 we have seen steadier flows, spreads have come in and there haven't been any real problems on the sterling side," says Mr David Newton, head of bond trading at BZW. "There is still a lack of liquidity, but there is no-way business in all sectors. This year should be more profitable."

Still, last year's losses may well have prompted some Gemms to take a more cautious trading approach and to cut costs. Some houses have undertaken internal restructuring of their gilt operations,

and two - Nomura and Barings - pulled out altogether this year. Some say next year could bring more defections.

"Last year's losses may have prompted some Gemms to do their calculations to work out if it's really worth being a formal market maker - especially once the gilt repo market starts," says Nikko's Mr Briscoe.

From January, any market participant will be able to take short positions in gilts - currently the exclusive right of a Gemm. Another benefit for Gemms, their special dealing relationship with the Bank of England, is also being eroded by the increasing transparency of the gilt market.

"People will start weighing up the costs of being a Gemm with the benefits of that status," says Mr Briscoe.

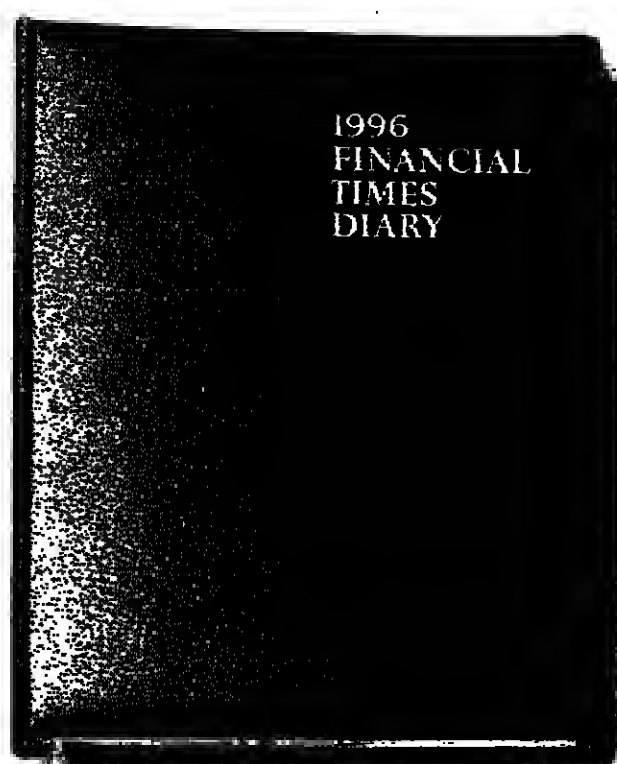
Ironically, some say it might be the smaller, non-Anglo-Saxon Gemms that could have greater staying power. Often catering to "niche" markets, such as institutions in Japan, Germany or France, they may have lower turnover than some of the bigger US or UK houses, but can often earn greater profit margins on those trades.

Conner Middelmann

NEW INTERNATIONAL BOND ISSUES

Issuer	Amount	Maturity	Coupon	Price	Yield	Launch spread	Book name
US DOLLARS							
Polysar Corp	10	Nov 1998	6.75	102.00	-	-	Nomura International
Tennessee Valley Authority	150	Nov 2000	6.00	98.50	6.914	(-0.57)+(-0.25)	Lehman Brothers Ltd
Tennessee Valley Authority	800	Nov 2002	6.75	98.40	6.757	(-0.74)+(-0.25)	Lehman Brothers Ltd
Federal Reserve Bank	500	Nov 1995	6.00	98.50	-	-	Nomura International
Goldman Sachs Group	300	Nov 2002	6.00	101.00	-	-	Barclays Bank
Société Générale	100	Nov 1998	4.75	98.25	5.959	(-0.57)+(-0.48)	Barclays Bank
Barclays Bank	100	Nov 2000	5.50	98.25	6.555	(-0.57)+(-0.48)	Lehman Brothers Ltd
Polysar Corp	300	Nov 2002	6.00	101.00	6.914	(-0.57)+(-0.25)	Lehman Brothers Ltd
Orsted Holdings	200	Nov 2005	7.00	95.25	7.108	(-0.00)+(-0.48)	CS First Boston
Orsted Holdings	100	Nov 2005	7.00	98.75	-	-	CS First Boston
US West Communications	250	Nov 2000	5.25	98.25	6.173	(-0.57)+(-0.48)	Morgan Stanley
EURO DOLLARS							
Bayreuther Hypothek	1.500	Nov 2001	5.75	100.54	5.641	-	Bayreuther Hypothek
City of Munich	800	Nov 2005	5.25	101.70	5.390	-	Bayreuther Hypothek
Commerzbank (France Plc)	500	Dec 1998	5.25	101.05	-	-	Commerzbank
Salzberg, US Capital Markets	500	Dec 1998	5.25	98.90	5.302	(-0.74)+(-0.25)	Barclays Bank
Volvo Trucks	700	Nov 2000	6.00	98.25	-	-	Barclays Bank
Deutsche Bau und Baubank	250	Dec 2005	6.00	98.25	-	-	ABN AMRO
YEN							
Mitsubishi Corp Plc, Asia	200	Nov 1998	1.25	101.225	-	-	Morgan Stanley Ltd
Mitsubishi Corp Plc, Asia	300	Nov 1998	1.25	101.225	-	-	Morgan Stanley Ltd
Mitsubishi Corp Plc, Asia	500	Dec 1998	2.00	101.80	-	-	Morgan Stanley Ltd
LIJ Real Estate	100	Nov 2005	6.00	101.00	-	-	Salomon Brothers Ltd
Salomon Brothers	100	Nov 2005	6.00	101.00	-	-	Salomon Brothers Ltd
Schweitzer-Mohr	100	Nov 2005	6.00	101.00	-	-	Salomon Brothers Ltd
Schweitzer-Mohr	100	Nov 2005	6.00	101.00	-	-	Salomon Brothers Ltd
SWISS FRANKS							
Acid Corp (H+)	80	Mar 2000	5.75	100.00	-	-	Daiwa Securities (Europe)
Daiwa Securities North America	125	Jun 2002	4.125	100.00	3.581	-	Daiwa Securities (Europe)

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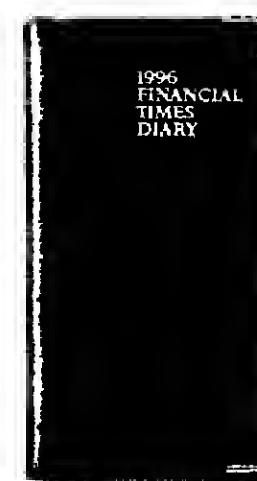


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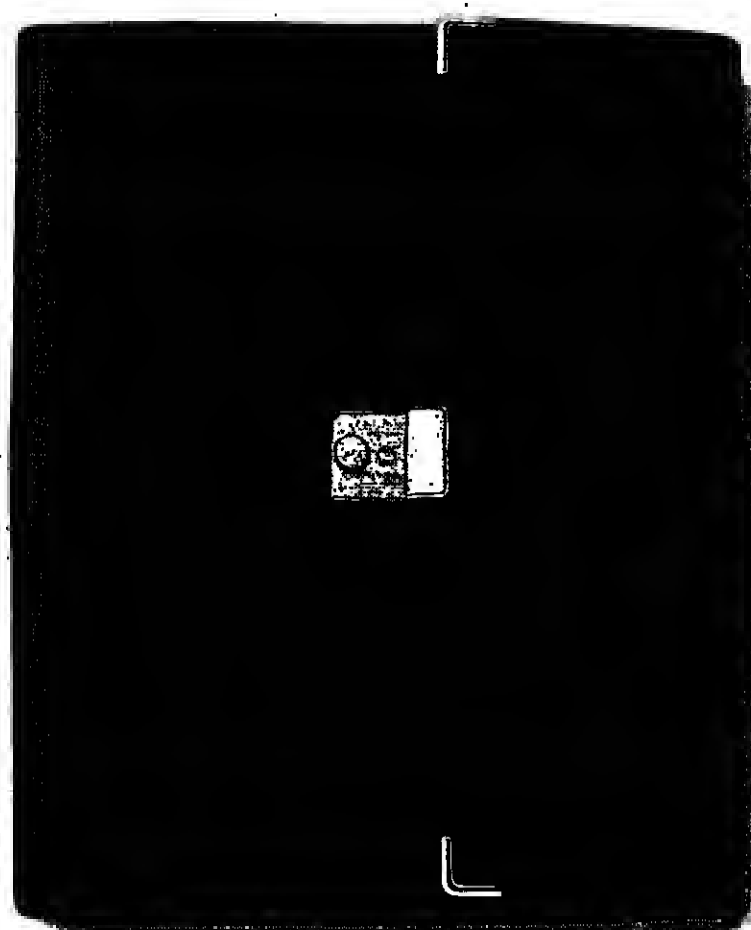


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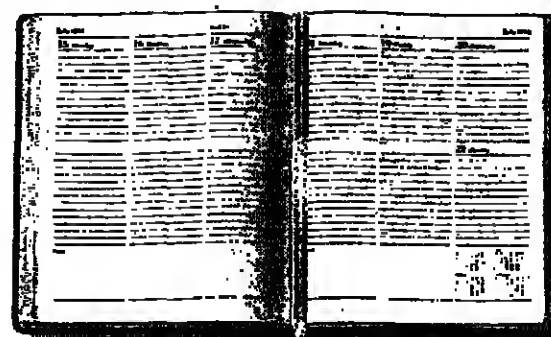
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Continued on next page

NASDAQ NATIONAL MARKET

4 pm close November.

[illegible]

1	Hillside Inc	337	3779	10 $\frac{1}{2}$	9 $\frac{3}{4}$	10 $\frac{1}{2}$	1 $\frac{1}{2}$	NPC Int	18	462	5 $\frac{1}{2}$	9 $\frac{1}{4}$	5 $\frac{1}{4}$	1 $\frac{1}{2}$	Total
2	Hillside Tech	20	2578	10 $\frac{1}{2}$	18 $\frac{1}{2}$	10 $\frac{1}{2}$	1	NSC Corp	13	5	2	2	2		Trans

2100	24	24	24	+
214	1	1	1	1

Trueman	17	173	73	73	+4	
Transoceanic	1	10	140	214	214	+4
Tangay Ltd	0.30	28	194	5	712	+4
Taylor	0.10	10	391	34	244	34
- U -						
US Weber	0.1	181	1480	40	44	+4
United	21	1620	34	34	34	
Union	1.02	17	81	102	152	+4
Universal	0.40	47	14	140	383	+4
Unimex	1.00	10	10	10	10	
Unisys	2.10	12	196	402	402	+4
US Bancorp	1.00	122	3030	31	303	31
US Bank	1.4	61	4	4	4	+4
USF Inc	0.10	40	4	4	50	44
USF Corp	1.20	20	20	143	143	+4
Utah Med	1.0	945	14	143	143	+4
Utah Tele	0.80	22	9	847	847	+4
Utah	5	156	24	2	2	
- W -						
Wahnetex	0.20	14	30	243	243	+4
Wardell Corp	62	648	234	224	234	+4
Wellington	42	4200	20	194	204	+4
Westboro	19	90	26	26	26	+4
Wico	27	27	200	192	192	+4
Wicor	10	10	10	10	10	+4
Womble	32	142	104	9	104	+4
WLSI Tech	25	1530	224	214	224	+4

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FT GUIDE TO THE WEEK

MONDAY

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Rabin funeral

World leaders, including UK prime minister John Major and US President Bill Clinton, gather in Tel Aviv for the funeral of Yitzhak Rabin. The assassinated prime minister of Israel will be buried at the Mount Herzl national cemetery in Jewish west Jerusalem. Others due to attend are Germany's Chancellor Helmut Kohl and three former US presidents: Jimmy Carter, George Bush and Gerald Ford. Malcolm Rifkind, UK foreign secretary, will also be there and intends to continue with his scheduled tour of the Middle East later in the week.

Fiscal pact in Argentina

Argentina's President Carlos Menem and his economy minister Domingo Cavallo will meet governors of the country's 23 provinces in Buenos Aires to discuss a new fiscal pact to coordinate state and federal taxing and spending policies. Mr Menem confirmed last week that his government was considering demanding salary cuts for provincial government workers, as part of an overall package to stem spending.

Trinidad and Tobago election

The incumbent People's National Movement is expected to be returned for a consecutive term with a slim majority. In a general election in Trinidad and Tobago. The prospects of the party, led by Patrick Manning, the prime minister, have been helped by the failure of the two main opposition parties to unite. Defections by MPs and losses in by-elections had reduced the government's parliamentary majority to one, leading Mr Manning to call the election a year early.

Trial in Tokyo

Tokyo district court begins the trial of the former head of Tokyo Kyowa Credit Association, Harunori Takahashi. He has been indicted on breach of trust charges in connection with bad loans given out by his credit union.

G15 summit

Leaders of the Group of 15 developing nations converge for a summit in Argentina. Argentina's foreign minister Guido Di Tella has urged the group to adopt a less confrontational approach toward G7 countries and concentrate on trade and co-operation. About 300 industrialists from the 15 member nations have been invited to attend the meeting.

FT Surveys

Copenhagen and Global Custody.

Holidays

Colombia, Morocco, Sri Lanka.

TUESDAY

7

US elections

The US holds its off-year elections with the most interesting races likely to be those in San Francisco and Virginia.



Bosnia's Alija Izetbegovic and Muhammed Sacirbey watch football in Kentucky on a day off from peace talks which continue in Ohio

California's former Speaker, Willie Brown, is hoping to become the next mayor of San Francisco and Republicans are hoping to gain control of Virginia's state assembly for the first time in 120 years.

New York auctions

Christie's kicks off the biggest week of art sales for five years in New York with an auction of 65 important Impressionist and Modern works of art. For art connoisseurs the highlight is one of Matisse's "cut out", collages that he created in his later years, which is expected to make \$7m (\$4.5m). There should also be strong bidding, in excess of \$7m, for one of Monet's paintings of waterlilies and a Picasso portrait of an acrobat.

On Wednesday, Sotheby's offers its best auction of Impressionist and Modern art since 1980 and expects to bring in at least \$150m. Five paintings by Picasso, works by Leger and Kandinsky, plus a 1917 self-portrait by Chagall are up for sale.

EU industry meeting

European Union industry ministers in Brussels discuss plans by the Irish government to bail out its small steel industry which accounts for less than 5 per cent of total EU steel production. A difficult debate is expected with strong opposition coming from the UK and Luxembourg which fear state aid will damage competition.

Booker winner announced

Publishers prepare for a surge in sales as the winner of the Booker Prize for Fiction is announced at the Guildhall in London. Now in its 27th year, the Booker is the

UK's most prestigious literary award with £20,000 going to the winner. Salman Rushdie is this year's favourite for The Moor's Last Sigh. Other shortlisted authors are: Pat Barker, Justin Cartwright, Barry Unsworth and Tim Winton.

Minister goes fishing

UK fisheries minister Tony Baldry sets sail aboard a Plymouth trawler. Mr Baldry begins his "fact-finding mission" at 5.30am when he joins the crew of the 31m beam trawler Gristle to fish for sole and plaice in the English Channel. He returns with his catch at about 8pm.

Tube strike

A 48-hour strike on the London Underground is scheduled for noon today. Members of the RMT rail union are holding out for a 6 per cent pay increase. Other Tube unions have already settled for 3 per cent.

Speed chess in Paris

The £100,000 Intel Grand Prix final is staged at the Espace Cardin Theatre in Paris, where 16 top players will compete in knockout speed chess. Garry Kasparov's challengers include Britain's Michael Adams, who won the London Grand Prix, and France's 12-year-old prodigy Etienne Bacrot, the youngest ever Grand Prix finalist.

Demonstration in Moscow

Hundreds of Russians are expected to mark the anniversary of the 1917 Revolution by demonstrating their continued support for the Communist Party.

Horse racing

The Melbourne Cup, staged today at Flemington racecourse, Melbourne, Australia, is not a great horse race, though it remains a social spectacle of the first rank. Best advice: bet small.

FT Surveys

New Broadcast and Communications Media and Bermuda.

Holidays

Bangladesh, India, Tunisia, Ukraine.

WEDNESDAY

8

Inflation report

The Bank of England publishes its latest quarterly report on the government's anti-inflation policy. The Bank's updated forecast for inflation over the next two years will provide some indication of whether Kenneth Clarke, the chancellor, has scope to cut interest rates in the coming few months. However, the Bank is thought to be keen to see how the chancellor's Budget is received later this month before it offers any firm advice on moving base rates up or down.

French strike talks

France's civil service minister Jean Puech will try to avert a second one-day strike when he meets a trade union delegation in Paris. Industrial action on October 10 brought many public services to a halt and disrupted state-sector industries. Union leaders, bolstered by strong support from France's 5m civil servants, say they will call for another strike if the government rejects their demands for a general pay increase next year.

FT Surveys

Southern France and Portugal.

THURSDAY

9

Commonwealth meeting

Leaders from Commonwealth countries gather for the heads of government conference in Auckland, New Zealand. The summit will debate issues such as drug trafficking and money laundering but Pacific members are expected to press for discussions on French nuclear tests at Mururoa atoll to be put at the top of the agenda.

Europe role for Ukraine

Ukraine officially joins the Council of Europe despite reservations expressed in parliament about an early repeal of the death penalty, a long-term requirement for membership. Kiev is keen to have a role within the organisation, which monitors human rights and democracy in Europe and hopes membership will improve Ukraine's status as a political player in Europe.

Macau airport opens

Formula 3 racing cars will be the first cargo to roll off the ramps when Macau's newly-built international airport opens today. The first freight shipment will be racing machines for the 42nd Grand Prix to be run on the twisted streets of Portuguese-run Macau on November 19.

FT Surveys

Turkish Finance and Industry.

Holidays

Pakistan.

FRIDAY

10

Mastering Management

The FT's UK edition contains the third issue of Mastering Management, a 20-part series written by professors and other academics from the London Business School, the International Institute for Management Development in Switzerland and The Wharton School of the University of Pennsylvania, US. Loosely based on an MBA curriculum, the "course" includes everything from finance and marketing to ethics and organisational behaviour. Non-UK readers can subscribe to the series.

Hungary/Slovakia talks

A draft Slovak language law which has angered leaders of the country's 600,000 ethnic Hungarians will be under discussion when the prime minister, Vladimir Meciar, meets his Hungarian counterpart Gyula Horn in Berlin. Horn will try to persuade Meciar that the law, which requires public sector employees to read and write Slovak, contradicts the spirit of a bilateral basic treaty signed by them in March.

Business talks in Seville

European Union and US industrialists hold discussions on the benefits of a transatlantic business dialogue (to Nov 11). They will try to identify the key issues in the commercial and industrial relationship between the US and EU.

Cologne art fair

Art Cologne, the world's largest and oldest annual modern art fair, which last year attracted almost 70,000 visitors, opens its doors in the capital of the Rhineland. About 340 galleries from 23 countries will be exhibiting their collections until November 19.

FT Surveys

Private Finance Initiative

Holidays

Panama.

WEEKEND

11/12

Kohl in Asia

Chancellor Helmut Kohl sets off on Sunday on a 10-day trip to China, Vietnam and Singapore, part of a growing German offensive to prise open Asian markets. He will be the first chancellor to visit Vietnam where several German companies are bidding to land major contracts.

Singapore trade mission

Jean Denton, UK economy and agriculture minister for Northern Ireland leads a trade mission to Singapore on Sunday (to Nov 15). She will meet Singapore's trade minister Goh Chee Wee to promote business and investment opportunities in Northern Ireland.

Remembrance Day

As the UK prepares to remember the dead of two world wars, the Royal British Legion hopes its campaign to restore the two-minute silence on the 11th hour of the 11th day of the 11th month will gain support throughout the country. The Queen attends the traditional veterans' parade and wreath laying ceremony at the Cenotaph in London on Sunday.

Horse racing

The Mackeson Gold Cup steeplechase takes place on Saturday at Cheltenham racecourse, England.

Motor racing

Germany's Michael Schumacher has already clinched his second successive Formula 1 world motor racing title. And in Sunday's Australian grand prix in Adelaide he could become the first F1 driver ever to record 10 wins in a season.

Holidays

Taiwan (Sunday).

Compiled by Lison Rohman.
Fax: (+44) 0171 373 3194.

ECONOMIC DIARY

Other economic news

Monday: UK factory output is thought to have edged a little higher in September, keeping the annual rate of increase stable. Italian inflation is meanwhile expected to have been unchanged in October.

Tuesday: Most economists expect unemployment to have risen in eastern and western Germany last month, but some think the west may have seen a fall. The annual rate of increase in US consumer credit is thought to have continued slowing in September with some finance companies reporting a rise in the number of loan delinquencies.

Wednesday: Housing starts in Canada are expected to have risen last month, maybe by more than 10 per cent.

Thursday: Forecasts of French industrial production differ widely for the second quarter, with analysts expecting increases of anything from 0.1 to 3 per cent. The annual rate of US producer price inflation should have accelerated again last month, even though prices are thought to have barely increased between September and October.

Friday: Inflation is thought to have been stable last month in France but to have picked up a little in Norway.

Statistics to be released this week

Day Released	Country	Economic Statistic	Medium Forecast	Previous Actual
Mon	UK	Sep manufacturing output*	0.2%	0.8%
Nov 6	UK	Sep manufacturing output**	1.4%	1.3%
	UK	Sep industrial production*	0.4%	0.0%
	UK	Sep industrial production**	0.9%	1.0%
	Italy	Oct official consumer price index*	0.8%	0.3%
	Italy	Oct official consumer price index**	5.8%	5.8%
	Canada	Sep building permits*	2.5%	10.0%
Tues	US	3rd qtr productivity prelim	-	4.8%
Nov 7	US	Sep wholesale trade	-	0.3%
	US	Johnson Redbook w/e Nov 4	-	-1.8%
	US	Sep consumer credit	\$9.5bn	\$9.1bn
	Germany	Oct unemployment, West*	8,000	14,000
	Germany	Jul employment, West*	-6,500	-13,000
	Germany	Oct vacancies, West	-	-5,000
	Germany	Oct short-time, West	20,000	39,000
	Italy	Aug EU trade balance	12.47t	13.97t
Wed	UK	Bank of England inflation rpt (Nov)	-	-
Nov 8	Canada	Oct housing starts, units	112,000	107,000
Thur	US	Oct producer price index	unch	0.3%
Nov 9	US	Initial claims for unemployment	unch	0.2%
	US	Initial claims w/e Nov 4	380,000	365,000
	US	State benefits w/e Oct 28	-	2.62m
	US	M2 w/e Oct 30	\$2.6bn	\$2.7bn
	France	2nd qtr industrial production	0.8%	1.2%
	Netherlands	Sep producer price index*	2.5%	2.4%

Day Released	Country	Economic Statistic	Medium Forecast	Previous Actual
Fri	US	Nov Michigan sentiment prelim	-	90.2
Nov 10	US	Oct bank credit	-	7.2%
	US	Oct C&I loans	-	8.7%
	Japan	Oct Bank of Japan data	-	n/a
	France	Oct consumer price index, prelim*	0.3%	0.4%
	France	Oct consumer price index, prelim**	2.0%	2.0%
	Norway	Oct consumer price index*	-	2.3%
	Canada	Sep motor vehicle sales*	3.2%	-0.8%
During the week...				
	Japan	Sep current a/c (IMF)	\$11.6bn	\$11.6bn
	Japan	Sep trade balance (IMF)	\$14.2bn	\$14.2bn
	Japan	Sep foreign bond investment	\$6.4bn	\$6.4bn
	Germany	Sep industrial production, West*	2.2%	-4.8%
	Germany	Sep manufacturing output, West*	2.5%	-5.0%
	Germany	Sep industrial prod, pan-Germany*	1.5%	n/a
	Germany	Sep orders, West*	1.5%	-3.8%
	Germany	Sep final MS (4th qtr, 94)	1.5%	1.5%
	Germany	Sep retail sales, West*	-1.5%	-2.0%
	Germany	Oct final cost of living, West*	-0.1%	-0.1%
	Germany	Oct final cost of living, West**	-1.6%	-1.6%
	Germany	Oct final COL, pan-Germany*	-0.1%	-0.1%
	Germany	Oct final COL, pan-Germany**	1.6%	1.6%
	Spain	Oct registered unemployment rate	15.5%	15.3%

*month on month; **year on year; *seasonally adjusted; Statistics courtesy MMS International.

MONDAY PRIZE CROSSWORD

No.8,911 Set by DANTE

A prize of a Pelikan New Classic 380 fountain pen for the first correct solution opened and five runner-up prizes of £26 Pelikan vouchers will be awarded. Solutions by Thursday November 16, marked Monday Crossword 8,911 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 1TL. Solution on Monday November 20. Please allow 28 days for delivery of prizes.

Name: _____
Address: _____

Winners 8,899

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R.R. Bell, Derby
M.C. Mitchell, Redcar
Simon Deefolts, London E5
Tom Richardson, London SW1
Lynda Massie, Sutton, Surrey

Solution 8,899

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